

# **HEALTH ANNUAL STATEMENT**

FOR THE YEAR ENDED DECEMBER 31, 2011 OF THE CONDITION AND AFFAIRS OF THE

## UnitedHealthcare of Arkansas, Inc.

<u>0707</u> <u>0707</u> NAIC Company Code <u>95446</u> Employer's ID Number <u>63-1036819</u>

NAIC Group Code

Organized under the Laws of _	(Current) (Pri Arkansa		State of Domicile or Port of Er	ntry Arkansas
Country of Domicile		United States	s of America	
Licensed as business type:		Health Maintenar	ce Organization	
Is HMO Federally Qualified? Yes	[ ] No[ X]			
Incorporated/Organized	09/27/1990		Commenced Business	04/01/1992
	1401 Capitol Ave. 3rd Fl	oor. Ste 375		Little Rock , AR 72205
	(Street and Num			ity or Town, State and Zip Code)
Main Administrative Office		1401 Capitol Ave.	3rd Floor, Ste 375	
	ittle Book AB 72205	(Street and	Number)	F01 664 7700
	Little Rock , AR 72205  Town, State and Zip Code)	,	(A	rea Code) (Telephone Number)
Mail Address	9900 Bren Road East MN008	3-W345 ,		Minnetonka , MN 55343
	(Street and Number or P.O.			ity or Town, State and Zip Code)
Primary Location of Books and Re	ecords	9900 Bren Road E	ast MN008-W345	
N	linnotonko MN 55242	(Street and	Number)	052 026 1227
	linnetonka , MN 55343 Town, State and Zip Code)	,	(A	952-936-1237 rea Code) (Telephone Number)
Internet Website Address	, ,	www.ti	nc com	,, ,
				050 000 1007
Statutory Statement Contact		ay Verdoorn ame)	,	952-936-1237 (Area Code) (Telephone Number)
Sara	h_K_Verdoorn@uhc.com	,		952-936-1187
	(E-mail Address)			(FAX Number)
D :1 !/Q!: (E ::		OFFIC	ERS	
President/Chief Executive Officer	Gregory David	Reidy	Chief Financial Officer	Stephen Lewis Wilson Jr
Secretary		atthews		Robert Worth Oberrender
		OTH	IER	
Juanita Bolland Luis As	ssistant Secretary	Nyle Brent Cottingtor	Assistant Treasurer	Michelle Marie Huntley Dill Assistant Secretary
		DIRECTORS O		O. 14
Gregory David	d Reidy	Robert Jam	es Friedrichs	Cheryl Ann Lippert #
State of				
County of		County of		
herein described assets were the abserblated exhibits, schedules and expl reporting entity as of the reporting J Statement Instructions and Account not related to accounting practices a	solute property of the said reportions therein contained, anne- beeriod stated above, and of its inc ing Practices and Procedures ma and procedures, according to the presponding electronic filing with	ng entity, free and clear from ked or referred to, is a full and come and deductions therefore nual except to the extent that best of their information, known the NAIC, when required, to	n any liens or claims thereon, exced true statement of all the assets a m for the period ended, and have: (1) state law may differ; or, (2) to swledge and belief, respectively, hat is an exact copy (except for for	tity, and that on the reporting period stated above, all of the cept as herein stated, and that this statement, together with and liabilities and of the condition and affairs of the said been completed in accordance with the NAIC Annual that state rules or regulations require differences in reporting Furthermore, the scope of this attestation by the described ormatting differences due to electronic filing) of the enclosed
Gregory David Reidy President/Chief Executive (		John Joseph Secre		
Subscribed and sworn to before me		Subscribed and sworn to b	efore me this	
day of		day of		
			a. Is this an original filir	ng? Yes [X] No [ ]
			b. If no,	
			1. State the amendme	ent number
			0 D 21 1	

3. Number of pages attached.....

## **ASSETS**

			Current Year		Prior Year
		1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets (Cols. 1 - 2)	4 Net Admitted Assets
1.	Bonds (Schedule D)	300,136		300, 136	300,457
2.	Stocks (Schedule D):				
	2.1 Preferred stocks			0	0
	2.2 Common stocks			0	0
3.	Mortgage loans on real estate (Schedule B):				
	3.1 First liens				0
	3.2 Other than first liens.			0	0
	Real estate (Schedule A):				
	4.1 Properties occupied by the company (less \$				
	encumbrances)			0	0
	4.2 Properties held for the production of income (less summary encumbrances)				0
	4.3 Properties held for sale (less \$			0	
	encumbrances)			0	0
5.	Cash (\$				
Э.	(\$, Schedule E - Part 2) and short-term				
	investments (\$1,764,616 , Schedule DA)	10 696 289		10 696 289	9 245 157
6.	Contract loans, (including \$ premium notes)				
	Derivatives (Schedule DB)				
	Other invested assets (Schedule BA)				
	Receivables for securities				
10.	Securities lending reinvested collateral assets (Schedule DL)			0	0
11.	Aggregate write-ins for invested assets	0	0	0	0
	Subtotals, cash and invested assets (Lines 1 to 11)				
13.	Title plants less \$ charged off (for Title insurers				
	only)			0	0
14.	Investment income due and accrued	1,246		1,246	1,260
	Premiums and considerations:				
	15.1 Uncollected premiums and agents' balances in the course of collection	595,722	2,897	592,825	73,786
	15.2 Deferred premiums, agents' balances and installments booked but				
	deferred and not yet due (including \$				
	earned but unbilled premiums)			0	0
16.	15.3 Accrued retrospective premiums	0		0	0
10.	16.1 Amounts recoverable from reinsurers			0	0
	16.2 Funds held by or deposited with reinsured companies				0
	16.3 Other amounts receivable under reinsurance contracts				
	Amounts receivable relating to uninsured plans				
	Current federal and foreign income tax recoverable and interest thereon			1,016,666	
	Net deferred tax asset		47	63,898	49,564
	Guaranty funds receivable or on deposit			74,414	0
20.	Electronic data processing equipment and software			0	0
21.	Furniture and equipment, including health care delivery assets				
	(\$)			0	0
	Net adjustment in assets and liabilities due to foreign exchange rates				0
	Receivables from parent, subsidiaries and affiliates				
	Health care (\$328, 164 ) and other amounts receivable				
	Aggregate write-ins for other than invested assets	140,450	133	140,317	145,488
26.	Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 to 25)	13,540,499	57 881	13.482 618	10.555 982
27.	From Separate Accounts, Segregated Accounts and Protected Cell			10, 402,010	
	Accounts			0	0
28.	Total (Lines 26 and 27)	13,540,499	57,881	13,482,618	10,555,982
	DETAILS OF WRITE-INS				
1101.					
1102.					
1103.					
	Summary of remaining write-ins for Line 11 from overflow page		0	0	0
	Totals (Lines 1101 thru 1103 plus 1198)(Line 11 above)	0	0	0	0
	Premium taxes paid in advance			140,317	•
	Prepaid Expenses		133		
2503.	Summary of romaining write ing for Line 25 from everflow page	0	0	0	
	Summary of remaining write-ins for Line 25 from overflow page	140,450	133	140,317	145,488
2599.	Totals (Lines 2501 thru 2503 plus 2598)(Line 25 above)	140,450	133	140,31/	140,488

# **LIABILITIES, CAPITAL AND SURPLUS**

	LIABILITIES, CAP		Current Year		Prior Year
		1	2	3	4
		Covered	Uncovered	Total	Total
1.	Claims unpaid (less \$0 reinsurance ceded)			5,316,483	
2.	Accrued medical incentive pool and bonus amounts				3,651
3.	Unpaid claims adjustment expenses			100,744	•
4.	Aggregate health policy reserves, including the liability of			100,744	
	\$35,032 for medical loss ratio rebate per the Public				
	Health Service Act	41 012		41 012	84 304
5.	Aggregate life policy reserves.			0	
6.	Property/casualty unearned premium reserves				
7.	Aggregate health claim reserves.				
8.	Premiums received in advance.			100,570	
9.	General expenses due or accrued.			146,920	
10.1		140,920		140,920	130,330
10.1	(including \$ on realized capital gains (losses))	0		0	0
10.2	Net deferred tax liability				0
11.	Ceded reinsurance premiums payable				
12.	Amounts withheld or retained for the account of others				
	Remittance and items not allocated.			205,258	
13.		200,200		200,200	200
14.	Borrowed money (including \$ current) and				
	interest thereon \$ (including			0	0
45	\$ current)				
15.	Amounts due to parent, subsidiaries and affiliates			247,295	
16.	Derivatives.				
17.	Payable for securities.				0
18.	Payable for securities lending			0	0
19.	Funds held under reinsurance treaties (with \$				
	authorized reinsurers and \$0 unauthorized				
	reinsurers)				
20.	Reinsurance in unauthorized companies.				0
21.	Net adjustments in assets and liabilities due to foreign exchange rates				0
22.	Liability for amounts held under uninsured plans	177,360		177,360	0
23.	Aggregate write-ins for other liabilities (including \$				
	current)				
24.	Total liabilities (Lines 1 to 23)				
25.	Aggregate write-ins for special surplus funds.				
26.	Common capital stock				100,000
27.	Preferred capital stock				
28.	Gross paid in and contributed surplus				5,470,954
29.	Surplus notes				0
30.	Aggregate write-ins for other than special surplus funds				
31.	Unassigned funds (surplus)	XXX	XXX	1,507,337	920,924
32.	Less treasury stock, at cost:				
	32.1 shares common (value included in Line 26				
	\$	XXX	XXX		
	32.2 shares preferred (value included in Line 27				
	\$	XXX	XXX		
33.	Total capital and surplus (Lines 25 to 31 minus Line 32)	XXX	XXX	7,078,291	6,491,878
34.	Total liabilities, capital and surplus (Lines 24 and 33)	XXX	XXX	13,482,618	10,555,982
	DETAILS OF WRITE-INS				
2301.	Unclaimed property	9		9	
2302.					
2303.					
2308.	Summary of remaining write-ins for Line 23 from overflow page	0	0	0	0
2309.	Totals (Lines 2301 thru 2303 plus 2308)(Line 23 above)	9	0	9	0
2501.		xxx	xxx		
2502.		xxx	XXX		
2503.		xxx	xxx		
i	Summary of remaining write-ins for Line 25 from overflow page	xxx	xxx	0	0
2598.	- Summary of remaining write-ins for Line 25 from overnow page			0	0
	Totals (Lines 2501 thru 2503 plus 2598)(Line 25 above)	XXX	XXX	U	
2599.	Totals (Lines 2501 thru 2503 plus 2598)(Line 25 above)	XXX XXX			
2599. 3001.	Totals (Lines 2501 thru 2503 plus 2598)(Line 25 above)		XXX		•
2599. 3001. 3002.	Totals (Lines 2501 thru 2503 plus 2598)(Line 25 above)	XXX XXX	XXX XXX		
2599. 3001. 3002.	Totals (Lines 2501 thru 2503 plus 2598)(Line 25 above)	XXX XXX XXX	XXX XXX XXX		

# STATEMENT OF REVENUE AND EXPENSES

1	
1.   Member Months	
2. Net promium income ( including \$	23,107,30 (19,47 23,087,83 15,874,96 21,95 2,155,48 3,08 18,055,48
3. Change in unearmed premium reserves and reserve for rate creditis	
3. Change in uneamed premium reserves and reserve for rate credits	
Fee-for-service (not of \$ medical expenses)	23,087,83 15,874,96 21,95 2,155,48 3,08 3,08 18,055,48
5. Risk revenue	23,087,83 15,874,96 21,95 2,155,48 3,08 18,055,48
6. Aggregate write-ins for other health care related revenues	23,087,83 15,874,96 21,95 2,155,48 3,08 18,055,48
7. Aggregate write-ins for other non health revenues	23,087,83 15,874,96 21,95 2,155,48 3,08 18,055,48
8. Total revenues (Lines 2 to 7)	23,087,83 15,874,96 21,95 2,155,48 3,08 18,055,48
Hospital and Medical:   25,438,593	15,874,96 21,95 2,155,48 3,08 18,055,48
9	21,95 2,155,48 3,08 18,055,48
10. Other professional services   36,246	21,95 2,155,48 3,08 18,055,48
11. Outside referrals	2, 155, 48
12   Emergency room and out-of-area	2, 155, 48 3, 08 18, 055, 48 18, 055, 48
13.   Prescription drugs   2,920,496     14.   Aggregate write-ins for other hospital and medical   0   0   0     15.   Incentive pool, withhold adjustments, and bonus amounts   21,461     16.   Subtotal (Lines 9 to 15)   0   29,416,796     17.   Net reinsurance recoveries   0   0     18.   Total hospital and medical (Lines 16 minus 17)   0   29,416,796     19.   Non-health claims (net)   0     10.   Non-health claims (net)   0     20.   Claims adjustment expenses, including \$   605,682 cost containment expenses   1,060,064     21.   General administrative expenses   1,060,064     22.   Increase in reserves for life and accident and health contracts (including \$   1,060,064     23.   Total underwriting deductions (Lines 18 through 29)   0   33,804,990     24.   Net underwriting gain or (loss) (Lines 8 minus 23)   XXX   2,750,545     25.   Net realized capital gains (losses) (Lines scapital gains tax of \$   19,300     28.   Net gain or (loss) (Lines See) Plus 26)   0   19,300     29.   Aggregate write-ins for other income or expenses   0   0   19,300     29.   Aggregate write-ins for other income or expenses   0   0   19,300     29.   Aggregate write-ins for other income or expenses   0   0   0   19,300     29.   Aggregate write-ins for other income or expenses   0   0   0   19,300     29.   Aggregate write-ins for other income or expenses   0   0   0   19,300     29.   Aggregate write-ins for other income or expenses   0   0   0   0   19,300     29.   Aggregate write-ins for other income or expenses   0   0   0   0   0   0   0   0   0	2,155,48
14. Aggregate write-ins for other hospital and medical	3,08
15.   Incentive pool, withhold adjustments, and bonus amounts	3,08
16. Subtotal (Lines 9 to 15)	18,055,48
16. Subtotal (Lines 9 to 15)	18,055,48
Less:	18,055,48
17. Net reinsurance recoveries	18,055,48
19. Non-health claims (net)   20. Claims adjustment expenses, including \$	
20. Claims adjustment expenses, including \$	
20. Claims adjustment expenses, including \$	
21. General administrative expenses       3,338,130         22. Increase in reserves for life and accident and health contracts (including \$ increase in reserves for life only)       0         23. Total underwriting deductions (Lines 18 through 22)       0       33,804,990         24. Net underwriting gain or (loss) (Lines 8 minus 23)       XXX       2,750,545         25. Net investment income earned (Exhibit of Net Investment Income, Line 17)       19,300         26. Net realized capital gains (losses) less capital gains tax of \$       0       19,300         27. Net investment gains (losses) (Lines 25 plus 26)       0       19,300         28. Net gain or (loss) from agents' or premium balances charged off [(amount recovered \$	10, 10
22. Increase in reserves for life and accident and health contracts (including \$ increase in reserves for life only)	3,392,12
Increase in reserves for life only)	,
23. Total underwriting deductions (Lines 18 through 22).       0       33,804,990         24. Net underwriting gain or (loss) (Lines 8 minus 23).       XXX       2,750,545         25. Net investment income earned (Exhibit of Net Investment Income, Line 17)       19,300         26. Net realized capital gains (losses) less capital gains tax of \$       0       19,300         27. Net investment gains (losses) (Lines 25 plus 26)       0       19,300         28. Net gain or (loss) from agents' or premium balances charged off [(amount recovered \$ )       )       0       0         29. Aggregate write-ins for other income or expenses       0       0       0         30. Net income or (loss) after capital gains tax and before all other federal income taxes (Lines 24 plus 27 plus 28 plus 29)       XXX       2,769,845         31. Federal and foreign income taxes incurred       XXX       976,315         32. Net income (loss) (Lines 30 minus 31)       XXX       1,793,530         DETAILS OF WRITE-INS         0601       XXX         0602       XXX         0603       XXX         0699. Totals (Lines 0601 thru 0603 plus 0698)(Line 6 above)       XXX         0701.       XXX         0702.       XXX	(700.00
24. Net underwriting gain or (loss) (Lines 8 minus 23)         XXX         2,750,545           25. Net investment income earned (Exhibit of Net Investment Income, Line 17)         19,300           26. Net realized capital gains (losses) less capital gains tax of \$         0         19,300           27. Net investment gains (losses) (Lines 25 plus 26)         0         19,300           28. Net gain or (loss) from agents' or premium balances charged off [(amount recovered \$	(722,00
25. Net investment income earned (Exhibit of Net Investment Income, Line 17)	
26. Net realized capital gains (losses) less capital gains tax of \$	1,716,72
27. Net investment gains (losses) (Lines 25 plus 26)       0       .19,300         28. Net gain or (loss) from agents' or premium balances charged off [(amount recovered \$	15,94
28. Net gain or (loss) from agents' or premium balances charged off [(amount recovered \$	1,63
\$ ) (amount charged off \$ )]	17,57
29. Aggregate write-ins for other income or expenses       0       0         30. Net income or (loss) after capital gains tax and before all other federal income taxes (Lines 24 plus 27 plus 28 plus 29)       XXX       2,769,845         31. Federal and foreign income taxes incurred       XXX       976,315         32. Net income (loss) (Lines 30 minus 31)       XXX       1,793,530         DETAILS OF WRITE-INS         0601.       XXX         0602.       XXX         0603.       XXX         0698.       Summary of remaining write-ins for Line 6 from overflow page       XXX         0701.       XXX         0702.       XXX         0703.       XXX	
30. Net income or (loss) after capital gains tax and before all other federal income taxes (Lines 24 plus 27 plus 28 plus 29)	
27 plus 28 plus 29)       XXX       2,769,845         31. Federal and foreign income taxes incurred       XXX       976,315         32. Net income (loss) (Lines 30 minus 31)       XXX       1,793,530         DETAILS OF WRITE-INS         0601.       XXX         0602.       XXX         0603       XXX         0698. Summary of remaining write-ins for Line 6 from overflow page       XXX       0         0699. Totals (Lines 0601 thru 0603 plus 0698)(Line 6 above)       XXX       0         0701.       XXX       0         0702.       XXX       XXX         0703       XXX       XXX	
27 plus 28 plus 29)       XXX       2,769,845         31. Federal and foreign income taxes incurred       XXX       976,315         32. Net income (loss) (Lines 30 minus 31)       XXX       1,793,530         DETAILS OF WRITE-INS         0601.       XXX         0602.       XXX         0603.       XXX         0698.       Summary of remaining write-ins for Line 6 from overflow page       XXX       0         0699.       Totals (Lines 0601 thru 0603 plus 0698)(Line 6 above)       XXX       0         0701.       XXX       0         0702.       XXX       XXX         0703.       XXX       XXX	
32. Net income (loss) (Lines 30 minus 31)  DETAILS OF WRITE-INS  0601.	1,734,29
DETAILS OF WRITE-INS         XXX           0601.         XXX           0602.         XXX           0603         XXX           0698.         Summary of remaining write-ins for Line 6 from overflow page         XXX           0699.         Totals (Lines 0601 thru 0603 plus 0698)(Line 6 above)         XXX           0701.         XXX           0702.         XXX           0703         XXX	364,72
0601.       XXX         0602.       XXX         0603.       XXX         0698.       Summary of remaining write-ins for Line 6 from overflow page       XXX         0699.       Totals (Lines 0601 thru 0603 plus 0698)(Line 6 above)       XXX         0701.       XXX         0702.       XXX         0703.       XXX	1,369,56
0602.       XXX         0603       XXX         0698. Summary of remaining write-ins for Line 6 from overflow page       XXX       0         0699. Totals (Lines 0601 thru 0603 plus 0698)(Line 6 above)       XXX       0         0701.       XXX       0         0702.       XXX       0         0703       XXX       0	
0603       XXX         0698. Summary of remaining write-ins for Line 6 from overflow page       XXX         0699. Totals (Lines 0601 thru 0603 plus 0698)(Line 6 above)       XXX         0701.       XXX         0702.       XXX         0703       XXX	
0698. Summary of remaining write-ins for Line 6 from overflow page         XXX         .0           0699. Totals (Lines 0601 thru 0603 plus 0698)(Line 6 above)         XXX         0           0701.         XXX            0702.         XXX            0703         XXX	
0699. Totals (Lines 0601 thru 0603 plus 0698)(Line 6 above)         XXX         0           0701.         XXX            0702.         XXX            0703         XXX	
0701.	
0702. XXX. D703 XXX.	
0703XXX	
0798. Summary of remaining write-ins for Line 7 from overflow page	
0799. Totals (Lines 0701 thru 0703 plus 0798)(Line 7 above) XXX 0	
1401.	
1402.	
1403.	
1498. Summary of remaining write-ins for Line 14 from overflow page0	
1499. Totals (Lines 1401 thru 1403 plus 1498)(Line 14 above) 0 0	
2901.	
2902.	
2903	
2998. Summary of remaining write-ins for Line 29 from overflow page	

**STATEMENT OF REVENUE AND EXPENSES (Continued)** 

1	STATEMENT OF REVENUE AND EXPENSES	Continuou	,
		Current Year	2 Prior Year
	CAPITAL AND SURPLUS ACCOUNT		
33.	Capital and surplus prior reporting year	6,491,878	5,323,026
34.	Net income or (loss) from Line 32	1,793,530	1,369,568
35.	Change in valuation basis of aggregate policy and claim reserves		
36.	Change in net unrealized capital gains (losses) less capital gains tax of \$		
37.	Change in net unrealized copital gains (losses) less capital gain or (loss)		
38.	Change in net deferred income tax		(263, 700)
	Change in nonadmitted assets		
39.			
40	Change in unauthorized reinsurance		0
41.	Change in treasury stock		0
42.	Change in surplus notes		
43.	Cumulative effect of changes in accounting principles.		
44.	Capital Changes:		
	44.1 Paid in		0
	44.2 Transferred from surplus (Stock Dividend)	0	0
	44.3 Transferred to surplus.		
45.	Surplus adjustments:		
	45.1 Paid in	0	0
	45.2 Transferred to capital (Stock Dividend)		
	45.3 Transferred from capital	0	
46.	Dividends to stockholders	(1,200,000)	
47.	Aggregate write-ins for gains or (losses) in surplus	0	0
48.	Net change in capital and surplus (Lines 34 to 47)	586,413	1, 168, 852
49.	Capital and surplus end of reporting period (Line 33 plus 48)	7,078,291	6,491,878
	DETAILS OF WRITE-INS		
4701.			
4702.			
4703.			
4798.	Summary of remaining write-ins for Line 47 from overflow page	0	0
4799.	Totals (Lines 4701 thru 4703 plus 4798)(Line 47 above)	0	0

## **CASH FLOW**

	CASITILOW	1	2
		Current Year	Prior Year
	Cash from Operations	Current rear	11101 1001
1.	Premiums collected net of reinsurance	35.895.149	23, 119, 199
2.	Net investment income	, ,	16,174
3.	Miscellaneous income		0
4.	Total (Lines 1 through 3)		23, 135, 373
5.	Benefit and loss related payments		16,843,313
6.	Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts		
7.	Commissions, expenses paid and aggregate write-ins for deductions		3,806,532
8.	Dividends paid to policyholders		
9.	Federal and foreign income taxes paid (recovered) net of \$ tax on capital gains (losses)		1,175,407
10.	Total (Lines 5 through 9)		21,825,252
11.	Net cash from operations (Line 4 minus Line 10)		1,310,121
		2,000,021	.,0.0,.2.
ī	Cash from Investments		
12.	Proceeds from investments sold, matured or repaid:		
	12.1 Bonds	0	0
	12.2 Stocks		0
	12.3 Mortgage loans		0
	12.4 Real estate		0
	12.5 Other invested assets		0
	12.6 Net gains or (losses) on cash, cash equivalents and short-term investments	0	0
	12.7 Miscellaneous proceeds		2,507
	12.8 Total investment proceeds (Lines 12.1 to 12.7)		2,507
13.	Cost of investments acquired (long-term only):		
	13.1 Bonds	0	0
	13.2 Stocks		0
	13.3 Mortgage loans		0
	13.4 Real estate		0
	13.5 Other invested assets	0	0
	13.6 Miscellaneous applications		0
	13.7 Total investments acquired (Lines 13.1 to 13.6)		0
14.	Net increase (decrease) in contract loans and premium notes		0
15.	Net cash from investments (Line 12.8 minus Line 13.7 minus Line 14)		2,507
	(		_,
	Cash from Financing and Miscellaneous Sources		
16.	Cash provided (applied):		
	16.1 Surplus notes, capital notes	0	0
	16.2 Capital and paid in surplus, less treasury stock	0	0
	16.3 Borrowed funds		0
	16.4 Net deposits on deposit-type contracts and other insurance liabilities		0
	16.5 Dividends to stockholders		0
	16.6 Other cash provided (applied)		(128, 157)
17.	Net cash from financing and miscellaneous sources (Lines 16.1 to 16.4 minus Line 16.5 plus Line 16.6)	,	(128, 157)
	RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS		
18.	Net change in cash, cash equivalents and short-term investments (Line 11, plus Lines 15 and 17)	1,451,132	1,184,472
19.	Cash, cash equivalents and short-term investments:		
	19.1 Beginning of year		8,060,686
	19.2 End of year (Line 18 plus Line 19.1)	10,696,289	9,245,157

Note: Supplemental disclosures of cash flow information for non-cash transactions:		
	T	1

# **ANALYSIS OF OPERATIONS BY LINES OF BUSINESS**

			IAL I OIO O		THOITO B		OI DOOMA				
		1	2	3	4	5	6 Federal Employees	7 Title	8 Title	9	10
		Total	Comprehensive (Hospital & Medical)	Medicare Supplement	Dental Onlv	Vision Onlv	Health Benefit Plan	XVIII Medicare	XIX Medicaid	Other Health	Other Non-Health
1	Net premium income	36,512,242	10,737,411	Supplement	Offig	Offity	Benefit Plan	25,774,831	Medicaid	Other Health	Non-nealth
	Change in unearned premium reserves and reserve for		10,737,411					23,774,031			
	rate credit	43,293	(35,032)					78,325			
3.	Fee-for-service (net of \$										
	medical expenses)	0									XXX
	Risk revenue	0									XXX
5.	Aggregate write-ins for other health care related revenues	0	0	0	0	0	0	0	0	0	xxx
6.	Aggregate write-ins for other non-health care related revenues	0	xxx	xxx	XXX	xxx	xxx	xxx	xxx	xxx	0
7.	Total revenues (Lines 1 to 6)	36.555.535	10,702,379	0	0	0	0	25.853.156	0	0	0
	Hospital/medical benefits	26,438,593	5,785,235					20,653,358			XXX
	Other professional services	36,246	2,564					33,682			XXX
10.	Outside referrals	0									XXX
11.	Emergency room and out-of-area	0									XXX
	Prescription drugs	2,920,496	1,098,160					1.822.336			XXX
	Aggregate write-ins for other hospital and medical	0	0	0	0	0	0	0	0	0	XXX
	Incentive pool, withhold adjustments and bonus amounts	21,461						21,461			XXX
15.	Subtotal (Lines 8 to 14)	29,416,796	6.885.959	0	0	0	0	22,530,837	0	0	XXX
_	Net reinsurance recoveries	20,110,700		у		y				y	XXX
	Total medical and hospital (Lines 15 minus 16)	29,416,796	6,885,959	0	Λ	0	0	22.530.837	Λ	0	XXX
	Non-health claims (net)	20,410,730	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
	Claims adjustment expenses including	y									
10.	\$605,682 cost containment expenses	1,050,065	227,171					822.894			
20.	General administrative expenses	3,338,130	880,552					2,457,578			
	Increase in reserves for accident and health contracts		000,002								XXX
	Increase in reserves for life contracts		XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
	Total underwriting deductions (Lines 17 to 22)	33,804,991	7,993,682					25,811,309			Λ
	Total underwriting gain or (loss) (Line 7 minus Line 23)	2.750.544	2.708.697	ν	ν	1	)u	41.847	۷	۷	۸
	DETAILS OF WRITE-INS	2,730,344	2,700,097	U	U	V	U	41,047	U	U	U
											100/
000											XXX
0502.											XXX
0503. 0598.	Summary of remaining write-ins for Line 5 from overflow										XXX
0500	page	ν	٠٠٠٠			l	L	ا	 n		XXX
	Totals (Lines 0501 thru 0503 plus 0598) (Line 5 above)	0	0	0	0	0	•	0	0	0	XXX
0601.			XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
0602.			XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
0603.			XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
0698.	Summary of remaining write-ins for Line 6 from overflow	^	VVV	VVV	VVV	VVV	V///	VVV	VVV	VVV	_
0699.	page	0	XXX	XXX XXX	XXX	XXX XXX	XXX XXX	XXX XXX	XXX XXX	XXX XXX	
	Totals (Lines 0601 thru 0603 plus 0698) (Line 6 above)	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0
1301.						<b>-</b>	-			<b>-</b>	XXX
1302.						<del> </del>		-		<del> </del>	XXX
1303. 1398.	Summary of remaining write-ins for Line 13 from										XXX
	overflow page	0	0	0	0	0	0	0	0	0	XXX
1399.	Totals (Lines 1301 thru 1303 plus 1398) (Line 13 above)	0	0	0	0	0	0	0	0	0	XXX

# **UNDERWRITING AND INVESTMENT EXHIBIT**

PART 1 - PREMIUMS

PART 1 - PREMIUMS	1	2	3	4
Line of Business	Direct Business	Reinsurance Assumed	Reinsurance Ceded	Net Premium Income (Cols. 1 + 2 - 3)
Comprehensive (hospital and medical)	10,748,152		10,740	10,737,412
2. Medicare Supplement	-			0
3. Dental only				0
4. Vision only				0
5. Federal Employees Health Benefits Plan	0			0
6. Title XVIII - Medicare	25,800,821		25,991	25,774,830
7. Title XIX - Medicaid	0		0	0
8. Other health				0
9. Health subtotal (Lines 1 through 8)	36,548,973	0	36,731	36,512,242
10. Life	0			0
11. Property/casualty	0			0
12. Totals (Lines 9 to 11)	36,548,973	0	36,731	36,512,242

## **UNDERWRITING AND INVESTMENT EXHIBIT**

PART 2 - CLAIMS INCURRED DURING THE YEAR

					MS INCURRED DU						
		1 Tabl	Comprehensive	3 Medicare	4	5	6 Federal Employees Health	7 Title XVIII	8 Title XIX	9	Other
		Total	(Hospital & Medical)	Supplement	Dental Only	Vision Only	Benefits Plan	Medicare	Medicaid	Other Health	Non-Health
1.	Payments during the year:										
	1.1 Direct	27,626,775	7, 161, 475					20,465,300			
	1.2 Reinsurance assumed	0									
	1.3 Reinsurance ceded	0									
	1.4 Net	27,626,775	7, 161, 475	0	0	0	0	20,465,300	0	0	0
2.	Paid medical incentive pools and bonuses	14,817						14,817			
3.								·			
	3.1 Direct	5,316,483	748,505	0	0	0	0	4,567,978	0	0	0
	3.2 Reinsurance assumed	0	0	0	0	0	0	0	0	0	0
	3.3 Reinsurance ceded	0	0	0	0	0	0	0	0	0	0
	3.4 Net	5,316,483	748,505	0	0	0	0	4,567,978	0	0	0
4.							•				•
	4.1 Direct	58,381	32, 123					26,257			
	4.2 Reinsurance assumed	0,007						20,207			
	4.3 Reinsurance ceded	0									
	4.4 Net	58,381	32.123	Λ	Λ	Λ	Λ	26.257	Λ	Λ	Λ
_								20,237		0	0
5.	year	10,295						10,295			
6.	•	208.653	(6.022)					214.675			
	Amounts recoverable from reinsurers December 31,	200,000	(0,022)					214,073			
7.	current year	0									
Q	Claim liability December 31, prior year from Part 2A:										
0.	8.1 Direct	3,358,538	1,036,188	٥	0	n	n	2,322,350	ا ۱	0	0
	8.2 Reinsurance assumed		n	n	٥	o	Λ	Z,022,000	 n		٥٠
	8.3 Reinsurance ceded	٠	n l	n	٠	Λ		0	 N		ں ۱
	8.4 Net	3,358,538	1,036,188	o		0	٥	2,322,350	۰		٥٥
9.			1,000,100		0	0				0	0
9.	9.1 Direct	39, 114	25,978					13 , 136			
	9.1 Direct	39,114	20,976					13, 130			
		0									
	9.3 Reinsurance ceded	0		n	Λ			40.400			
	9.4 Net	39,114	25,978	0	0	0	0	13, 136	0	0	0
10.	Accrued medical incentive pools and bonuses, prior year	3,651						3,651			
11.	Amounts recoverable from reinsurers December 31,	0									
	prior year	0									
12.	Incurred Benefits:			_	_	_	_		_	_	_
	12.1 Direct	29,395,335	6,885,959	0	0	ļ0	ļ0	22,509,375	0	0	0
	12.2 Reinsurance assumed	0	0	0	0	0	0	ļ0 ļ.	0	0	0
	12.3 Reinsurance ceded	0	0	0	0	0	0	0	0	0	0
	12.4 Net	29,395,335	6,885,959	0	0	0	0	22,509,375	0	0	0
13.	Incurred medical incentive pools and bonuses	21,461	0	0	0	0	0	21,461	0	0	0

<sup>(</sup>a) Excludes \$ ...... loans or advances to providers not yet expensed.

## **UNDERWRITING AND INVESTMENT EXHIBIT**

PART 2A - CLAIMS LIABILITY END OF CURRENT YEAR

				O LIABILITI LIAD	OF CURRENT TEAR					
	1 Total	2 Comprehensive (Hospital & Medical)	3  Medicare Supplement	4 Dental Only	5 Vision Only	6 Federal Employees Health Benefits Plan	7 Title XVIII Medicare	8 Title XIX Medicaid	9 Other Health	10 Other Non-Health
Reported in Process of Adjustment:			''	•	,					
1.1 Direct	1, 186, 344	199,854					986,490			
1.2 Reinsurance assumed	0									
1.3 Reinsurance ceded	0									
1.4 Net	1, 186, 344	199,854	0	0	0	0	986,490	0	0	0
Incurred but Unreported:										
2.1 Direct	4, 130, 139	548,651					3,581,488			
2.2 Reinsurance assumed	0									
2.3 Reinsurance ceded	0									
2.4 Net	4, 130, 139	548,651	0	0	0	0	3,581,488	0	0	0
Amounts Withheld from Paid Claims and Capitations:										
3.1 Direct	0									
3.2 Reinsurance assumed	0									
3.3 Reinsurance ceded	0									
3.4 Net	0	0	0	0	0	0	0	0	0	0
4 707110										
4. TOTALS:									_	
4.1 Direct	5,316,483	748,505	0	0	0	0	4,567,978	0	0	0
4.2 Reinsurance assumed	0	0	0	0	0	0	0	0	0	0
4.3 Reinsurance ceded	0	0	0	0	0	0	0	0	0	0
4.4 Net	5,316,483	748,505	0	0	0	0	4,567,978	0	0	0

## **UNDERWRITING AND INVESTMENT EXHIBIT**

PART 2B - ANALYSIS OF CLAIMS UNPAID - PRIOR YEAR - NET OF REINSURANCE

TAKE 25 - AMALTOLOG OF GE	AINS UNPAID - PRIOR TEAR - NET OF R	LINOUNANOL	Claim Reserve a	nd Claim Liability	5	6
	Claims Paid D	uring the Year	December 31		3	0
	1	2	3	4		Estimated Claim
						Reserve and Claim
	On Claims Incurred		On Claims Unpaid		Claims Incurred	Liability
	Prior to January 1	On Claims Incurred	December 31 of	On Claims Incurred	In Prior Years	December 31 of
Line of Business	of Current Year	During the Year	Prior Year	During the Year	(Columns 1 + 3)	Prior Year
Comprehensive (hospital and medical)	517,329	6,644,146	6,481	774 , 147	523,810	1,062,166
Medicare Supplement					0	0
3. Dental Only					0	0
4. Vision Only					0	0
5. Federal Employees Health Benefits Plan	310	2,922	20,845	0	21,156	19,917
6. Title XVIII - Medicare	1,436,166	19,025,902	46,014	4,527,376	1,482,181	2,315,569
7 Title XIX - Medicaid					0	0
8. Other health					0	0
9. Health subtotal (Lines 1 to 8)	1,953,805	25,672,970	73,341	5,301,523	2,027,146	3,397,652
10. Healthcare receivables (a)	23,849	322,306		36,812	23,849	174,315
11. Other non-health					0	0
12. Medical incentive pools and bonus amounts	14,817	0	0	10,295	14,817	3,651
13. Totals (Lines 9 - 10 + 11 + 12)	1,944,773	25,350,664	73,341	5,275,007	2,018,113	3,226,988

## **UNDERWRITING AND INVESTMENT EXHIBIT**

PART 2C - DEVELOPMENT OF PAID AND INCURRED HEALTH CLAIMS (000 Omitted)

Section A - Paid Health Claims - Title XVIII

	Cumulative Net Amounts Paid				
	1	2	3	4	5
Year in Which Losses Were Incurred	2007	2008	2009	2010	2011
1. Prior	395	434	434	435	435
2. 2007	1,745	2,232	2,235	2,236	2,229
3. 2008	XXX	3,677	4,254	4,277	4,278
4. 2009	XXX	XXX	4,285	5,085	4,815
5. 2010	XXX	XXX	XXX	8,359	10,087
6. 2011	XXX	XXX	XXX	XXX	19,029

#### Section B - Incurred Health Claims - Title XVIII

	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonus Outstanding at End of Year				
	1	2	3	4	5
Year in Which Losses Were Incurred	2007	2008	2009	2010	2011
1. Prior	429	434	434	435	435
2. 2007	2,414	2,288	2,235	2,236	2,229
3. 2008	XXX	4,688	4,264	4,277	4,278
4. 2009	XXX	XXX	5,069	5,111	4,815
5. 2010	XXX	XXX	XXX	10,673	10, 154
6. 2011	XXX	XXX	XXX	XXX	23,566

Section C - Incurred Year Health Claims and Claims Adjustment Expense Ratio - Title XVIII

	1	2	3	4	5	6	7	8	9	10
					Claim and Claim				Total Claims and	
Years in which					Adjustment Expense			Unpaid Claims	Claims Adjustment	
Premiums were Earned and Claims			Claim Adjustment	(Col. 3/2)	Payments	(Col. 5/1)		Adjustment	Expense Incurred	(Col. 9/1)
were Incurred	Premiums Earned	Claims Payment	Expense Payments	Percent	(Col. 2 + 3)	Percent	Claims Unpaid	Expenses	(Col. 5+7+8)	Percent
1. 2007	3,732	2,229	115	5.2	2,344	62.8			2,344	62.8
2. 2008	4,837	4,278	9	0.2	4,287	88.6			4,287	88.6
3. 2009	5,843	4,815	111	2.3	4,926	84.3			4,926	84.3
4. 2010	11,661	10,087	379	3.8	10,466	89.8	67		10,533	90.3
5. 2011	25,878	19,029	782	4.1	19,811	76.6	4,538	79	24,428	94.4

## **UNDERWRITING AND INVESTMENT EXHIBIT**

PART 2C - DEVELOPMENT OF PAID AND INCURRED HEALTH CLAIMS (000 Omitted)

Section A - Paid Health Claims - Grand Total

	Cumulative Net Amounts Paid				
	1	2	3	4	5
Year in Which Losses Were Incurred	2007	2008	2009	2010	2011
1. Prior	1,882	1,905	1,905	1,902	1,902
2. 2007	14, 197	15,901	15,903	15,908	15,901
3. 2008	XXX	13,582	14,764	14,920	14,923
4. 2009	XXX	XXX	13, 151	14,449	14,206
5. 2010	XXX	XXX	XXX	15,388	17,604
6. 2011	XXX	XXX	XXX	XXX	25,673

#### Section B - Incurred Health Claims - Grand Total

	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuse Outstanding at End of Year				
	1	2	3	4	5
Year in Which Losses Were Incurred	2007	2008	2009	2010	2011
1. Prior	1,996	1,905	1,905	1,902	1,902
2. 2007	16,442	16,027	15,903	15,908	15,901
3. 2008	XXX	15,867	14,813	14,920	14,923
4. 2009	XXX	XXX	15,204	14,499	14,206
5. 2010	XXX	XXX	XXX	18,740	17,678
6. 2011	XXX	XXX	XXX	XXX	30,984

Section C - Incurred Year Health Claims and Claims Adjustment Expense Ratio - Grand Total

	1	2	3	4	5	6	7	8	9	10
					Claim and Claim				Total Claims and	
Years in which					Adjustment Expense			Unpaid Claims	Claims Adjustment	
Premiums were Earned and Claims			Claim Adjustment	(Col. 3/2)	Payments	(Col. 5/1)		Adjustment	Expense Incurred	(Col. 9/1)
were Incurred	Premiums Earned	Claims Payment	Expense Payments	Percent	(Col. 2 + 3)	Percent	Claims Unpaid	Expenses	(Col. 5+7+8)	Percent
1. 2007	23,876	15,901	586	3.7	16,487	69.1	0	0	16,487	69.1
2. 2008	19,953	14,923	477	3.2	15,400	77.2	0	0	15,400	77.2
3. 2009	18,118	14,206	420	3.0	14,626	80.7	0	0	14,626	80.7
4. 2010	23,110	17,604	617	3.5	18,221	78.8	73	0	18,294	79.2
5. 2011	36,592	25,673	1,009	3.9	26,682	72.9	5,312	101	32,095	87.7

# **UNDERWRITING AND INVESTMENT EXHIBIT**

PART 2D - AGGREGATE RESERVE FOR ACCIDENT AND HEALTH CONTRACTS ONLY

PART 2D - AGGREGATE RESERVE FOR ACCIDENT AND HEALTH CONTRACTS ONLY										
		1 Total	2 Comprehensive (Hospital & Medical)	3 Medicare Supplement	4 Dental Only	5 Vision Only	6 Federal Employees Health Benefit Plan	7 Title XVIII Medicare	8 Title XIX Medicaid	9 Other
1.	Unearned premium reserves	2,374	2,374							
2.	Additional policy reserves (a)	0								
3.	Reserve for future contingent benefits	0								
4.	Reserve for rate credits or experience rating refunds (including									
	\$ ) for investment income	38,638	35,032					3,606		
5.	Aggregate write-ins for other policy reserves		0	0	0	0	0	0	0	
6.	Totals (gross)	41,012	37,406	0	0	0	0	3,606	0	
7.	Reinsurance ceded									
8.	Totals (Net)(Page 3, Line 4)	41,012	37,406	0	0	0	0	3,606	0	(
9.	Present value of amounts not yet due on claims	0								
10.	Reserve for future contingent benefits	58,381	32,123					26,257		
11.	Aggregate write-ins for other claim reserves	0	0	0	0	0	0	0	0	0
12.	Totals (gross)	58,381	32,123	0	0	0	0	26,257	0	0
13.	Reinsurance ceded	0								
14.	Totals (Net)(Page 3, Line 7)	58,381	32,123	0	0	0	0	26,257	0	(
0501.	DETAILS OF WRITE-INS									
0502.										
0503.										
0598.	Summary of remaining write-ins for Line 5 from overflow page	0	0	0	0	0	0	0	0	(
0599.	Totals (Lines 0501 thru 0503 plus 0598) (Line 5 above)	0	0	0	0	0	0	0	0	(
1101.										
1102.						<u> </u>				
1103.										
1198.	Summary of remaining write-ins for Line 11 from overflow page	0	0	0	0	0	0	0	0	0
1199.	Totals (Lines 1101 thru 1103 plus 1198) (Line 11 above)	0	0	0	0	0	0	0	0	(

## **UNDERWRITING AND INVESTMENT EXHIBIT**

PART 3 - ANALYSIS OF EXPENSES

			YSIS OF EXPENSE		4	-
		Claim Adjustme 1 Cost Containment Expenses	2 Other Claim Adjustment Expenses	3 General Administrative Expenses	Investment Expenses	5 Total
1.	Rent (\$0 for occupancy of					
	own building)	18.295	13.423	67,931	0	99,649
2.	Salary, wages and other benefits				0	1,856,548
3.	Commissions (less \$0			, 200, 010		,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,
0.	ceded plus \$ 0 assumed)	0	0	602,384	0	602.384
4.	Legal fees and expenses			23,885		33,490
5.	Certifications and accreditation fees			0		0
6.	Auditing, actuarial and other consulting services		26.799	287,425		350.750
7.	Traveling expenses		,	45,393		66,588
8.	Marketing and advertising			107,373		157,507
9.	Postage, express and telephone	·	19, 101	96,670		ŕ
10.	Printing and office supplies			31, 173		
11.	Occupancy, depreciation and amortization			18,391		
12.	Equipment		•	4.074		
		1,097	003	4,074	0	5,911
13.	Cost or depreciation of EDP equipment and software	48,953	35,916	181,768	0	266,637
14.	Outsourced services including EDP, claims, and other services	43,931	32,232	144,744	0	220,906
15.	Boards, bureaus and association fees		629	3, 183	0	4,670
16.	Insurance, except on real estate		7,982	91,866	0	110,727
17.	Collection and bank service charges		2,130	10,781	0	15,815
18.	Group service and administration fees		1,034	5,232	0	7,676
19.	Reimbursements by uninsured plans			0		0
20.	Reimbursements from fiscal intermediaries			0		0
21.	Real estate expenses			0		0
22.	Real estate taxes		764		0	11,774
23.	Taxes, licenses and fees:	, ,				,
	23.1 State and local insurance taxes	0	0	0	0	0
	23.2 State premium taxes			(150)	0	( 150
	23.3 Regulatory authority licenses and fees					135,576
	23.4 Payroll taxes			111, 185		111. 185
	23.5 Other (excluding federal income and real estate taxes)			7,347		,
24.	Investment expenses not included elsewhere				1,759	
25.	Aggregate write-ins for expenses		7,992	86,311	1,739	105, 198
	Total expenses incurred (Lines 1 to 25)	,	,	3,338,130	-	(a)4,389,953
26.	Less expenses unpaid December 31, current year					(a)4,369,933
27.						
28. 29.	Add expenses unpaid December 31, prior year  Amounts receivable relating to uninsured plans,					
30.	prior year					0
31.	Total expenses paid (Lines 26 minus 27 plus 28 minus 29 plus 30)	605,682	404, 127	3,348,011	1,314	4,359,134
	DETAILS OF WRITE-INS	,	,	.,,	., - 11	, ,
2501.	25.01 Information Technology	2,337	1,715	8,677	0	12,728
2502.			4,956		0	43,469
2503.	25.03 Managed Care & Network Access		·	8,772		8,772
2598.				·	0	40,228
2599.	Totals (Lines 2501 thru 2503 plus 2598)(Line 25 above)  des management fees of \$2,881,624 to	10,894	7,992	86,311 n-affiliates.	0	105, 198

(a) Includes management fees of \$ 2,881,624 to affiliates and \$ to non-affiliates.

## **EXHIBIT OF NET INVESTMENT INCOME**

		1	2
		Collected During Year	Earned During Year
1.	U.S. government bonds	(a)13,929	13,916
1.1	Bonds exempt from U.S. tax	(a)	
1.2	Other bonds (unaffiliated)		
1.3	Bonds of affiliates	(a)	
2.1	Preferred stocks (unaffiliated)		
2.11	Preferred stocks of affiliates		
2.2	Common stocks (unaffiliated)		
2.21	Common stocks of affiliates		
3.	Mortgage loans	(c)	
4.	Real estate	(d)	
5	Contract Loans		
6	Cash, cash equivalents and short-term investments		
7	Derivative instruments		
8.	Other invested assets	* *	
9.	Aggregate write-ins for investment income		0
10.	Total gross investment income	21,072	21,059
11.	Investment expenses		(g)1,759
12.	Investment taxes, licenses and fees, excluding federal income taxes		
13.	Interest expense		(h)
14.	Depreciation on real estate and other invested assets		(i)
15.	Aggregate write-ins for deductions from investment income		0
16.	Total deductions (Lines 11 through 15)		1,759
17.	Net investment income (Line 10 minus Line 16)		19,300
	DETAILS OF WRITE-INS		
0901.			
0902.			
0903.			
0998.	Summary of remaining write-ins for Line 9 from overflow page	0	0
0999.	Totals (Lines 0901 thru 0903 plus 0998) (Line 9, above)	0	0
1501.			
1502.			
1503.			
1598.	Summary of remaining write-ins for Line 15 from overflow page		0
1599.	Totals (Lines 1501 thru 1503 plus 1598) (Line 15, above)		0
(a) Inclu	ides \$	paid for accrued in	terest on purchases.
(b) Inclu	ides \$ accrual of discount less \$ amortization of premium and less \$	paid for accrued div	vidends on purchases.
(c) Inclu	des \$ accrual of discount less \$ amortization of premium and less \$	paid for accrued int	terest on purchases.
(d) Inclu	interest on each des \$	ncumbrances.	

**EXHIBIT OF CAPITAL GAINS (LOSSES)** 

(e) Includes \$ accrual of discount less \$ amortization of premium and less \$ paid for accrued interest on purchases.

investment expenses and \$ \_\_\_\_\_ investment taxes, licenses and fees, excluding federal income taxes, attributable to

accrual of discount less \$ ...... amortization of premium.

(i) Includes \$ depreciation on real estate and \$ depreciation on other invested assets.

(h) Includes \$ ..... interest on surplus notes and \$ ..... interest on capital notes.

(f) Includes \$ ......

segregated and Separate Accounts.

	EVUIDII	OF CAPI	IAL GAIN	3 (LU33E	.J	
		1	2	3	4	5
		Realized Gain (Loss) On Sales or Maturity	Other Realized Adjustments	Total Realized Capital Gain (Loss) (Columns 1 + 2)	Change in Unrealized Capital Gain (Loss)	Change in Unrealized Foreign Exchange Capital Gain (Loss)
1.	U.S. Government bonds	=				
1.1	Bonds exempt from U.S. tax	-				
1.2	Other bonds (unaffiliated)					
1.3	Bonds of affiliates					
2.1	Preferred stocks (unaffiliated)					
2.11	Preferred stocks of affiliates					
2.2	Common stocks (unaffiliated)					
2.21	Common stocks of affiliates					
3.	Mortgage loans					
4.	Real estate					
5.	Contract loans					
6.	Cash, cash equivalents and short-term investments					
7.	Derivative instruments			<b></b>		
8.	Other invested assets					
9.	Aggregate write-ins for capital gains (losses)	-				
10.	Total capital gains (losses)					
	DETAILS OF WRITE-INS					
0901.						
0902.						
0903.						
0998.	Summary of remaining write-ins for Line 9 from overflow page					
0999.	Totals (Lines 0901 thru 0903 plus 0998) (Line 9, above)					

# **EXHIBIT OF NON-ADMITTED ASSETS**

	EXHIBIT OF NON-ADMITTE	D AGGETG	2	3		
		Current Year Total Nonadmitted Assets	Prior Year Total Nonadmitted Assets	Change in Total Nonadmitted Assets (Col. 2 - Col. 1)		
1.	Bonds (Schedule D)			0		
2.	Stocks (Schedule D):					
	2.1 Preferred stocks			0		
	2.2 Common stocks			0		
3.	Mortgage loans on real estate (Schedule B):					
	3.1 First liens			0		
	3.2 Other than first liens			0		
4.	Real estate (Schedule A):					
	4.1 Properties occupied by the company			0		
	4.2 Properties held for the production of income.					
	4.3 Properties held for sale					
5.	Cash (Schedule E - Part 1), cash equivalents (Schedule E - Part 2) and short-term investments (Schedule DA)					
6.	Contract loans			0		
7.	Derivatives (Schedule DB)			0		
8.	Other invested assets (Schedule BA)					
9.	Receivables for securities					
10.	Securities lending reinvested collateral assets (Schedule DL)					
11.	Aggregate write-ins for invested assets					
12.	Subtotals, cash and invested assets (Lines 1 to 11)					
13.	Title plants (for Title insurers only)			_		
14.	Investment income due and accrued					
15.	Premiums and considerations:					
10.	15.1 Uncollected premiums and agents' balances in the course of collection	2 897	6 174	3 277		
	15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due					
	15.3 Accrued retrospective premiums			_		
16.	Reinsurance:					
10.	16.1 Amounts recoverable from reinsurers			0		
	16.2 Funds held by or deposited with reinsured companies			0		
17	16.3 Other amounts receivable under reinsurance contracts			0		
	Amounts receivable relating to uninsured plans					
	Current federal and foreign income tax recoverable and interest thereon			0		
	Net deferred tax asset			(47)		
19.	Guaranty funds receivable or on deposit			0		
20.	Electronic data processing equipment and software			0		
21.	Furniture and equipment, including health care delivery assets			0		
22.	Net adjustment in assets and liabilities due to foreign exchange rates			0		
23.	Receivable from parent, subsidiaries and affiliates			0		
24.	Health care and other amounts receivable					
25.	Aggregate write-ins for other than invested assets	133	0	(133)		
26.	Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 to 25)		36,383	(21,498)		
27.	From Separate Accounts, Segregated Accounts and Protected Cell Accounts			0		
28.	Total (Lines 26 and 27)	57,881	36,383	(21,498)		
	DETAILS OF WRITE-INS					
1101.						
1102.		-				
1103.						
1198.	Summary of remaining write-ins for Line 11 from overflow page		0	0		
1199.	Totals (Lines 1101 thru 1103 plus 1198)(Line 11 above)	0	0	0		
2501.	Prepaid Expenses	133	0	(133)		
2502.						
2503.						
2598.	Summary of remaining write-ins for Line 25 from overflow page	0	0	0		
2599.	Totals (Lines 2501 thru 2503 plus 2598)(Line 25 above)	133	0	(133)		

# NOTES TO STATUTORY BASIS FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

#### 1. SIGNIFICANT ACCOUNTING POLICIES

Organization and Operation — UnitedHealthcare of Arkansas, Inc. (the "Company"), licensed as a health maintenance organization (HMO) offers its enrollees a variety of managed care programs and products through contractual arrangements with health care providers. The Company is a wholly owned subsidiary of UnitedHealthcare, Inc. (UHC). UHC is a wholly owned subsidiary of UnitedHealthCare Services, Inc. (UHS), an HMO management corporation that provides services to the Company under the terms of a management agreement. UHS is a wholly owned subsidiary of UnitedHealth Group Incorporated ("UnitedHealth Group"). UnitedHealth Group is a publicly held company trading on the New York Stock Exchange.

The Company was incorporated on September 27, 1990, as a HMO and operations commenced in December 1991. The Company is certified as a HMO by the Arkansas Insurance Department (the "Department"). The Company has entered into contracts with physicians, hospitals, and other health care provider organizations to deliver health care services for all enrollees. The Company is licensed in the state of Arkansas.

The Company serves as a plan sponsor offering Medicare Advantage and Medicare Part D prescription drug insurance coverage (Medicare Part D program) under a contract with the Centers for Medicare and Medicaid Services (CMS). Under the Medicare Part D program, there are seven separate elements of payment received by the Company during the plan year; these payment elements are CMS premium, member premium, CMS low-income premium subsidy, CMS catastrophic reinsurance subsidy, CMS low-income member cost-sharing subsidy, CMS risk share and effective January 1, 2011, the CMS coverage gap discount program.

The Company offers the Evercare product in the state of Arkansas. Evercare offers complete, individualized care planning and care benefits for aging, disabled, and chronically ill individuals. Evercare offers these long-term care services in nursing homes, community-based settings, and private homes.

**Basis of Presentation** — The Company prepares its statutory financial statements on the basis of accounting practices prescribed or permitted by the Department. These statutory practices differ from accounting principles generally accepted in the United States of America (GAAP).

The more significant differences are as follows:

- Cash and short-term investments in the statutory basis financial statements represent cash balances and investments with original maturities of one year or less from the time of acquisition, whereas under GAAP, the corresponding caption of cash and short-term investments includes cash balances and investments that will mature in one year or less from the balance sheet date;
- Outstanding checks are required to be netted against cash balances or presented as cash overdrafts if in excess of cash balances in the statutory basis statements of admitted assets, liabilities, and capital and surplus as opposed to being presented as other liabilities under GAAP;
- Certain debt investments categorized as held to maturity under GAAP are shown at amortized cost, whereas in the statutory basis financial statements, these investments are presented at either the lower of amortized cost or fair value in accordance with the National Association of Insurance Commissioners' (NAIC) designations;
- Certain assets, including certain aged premium and health care receivables, and deferred taxes, are
  considered nonadmitted assets for statutory purposes and are excluded from the statutory basis
  statements of admitted assets, liabilities, and capital and surplus;
- Under statutory accounting, the change to deferred tax assets and liabilities is recorded directly to unassigned surplus and deferred tax assets are subject to limitations regarding the realization and admissibility of the assets in the statutory basis financial statements, whereas under GAAP, the change in deferred tax assets and liabilities is recorded as a component of the income tax provision within the income statement and is based on the ultimate recoverability of the deferred tax assets. Based on the admissibility criteria under statutory accounting, any deferred tax assets determined to be nonadmitted are charged directly to surplus and excluded from the statutory basis financial statements, whereas under GAAP, such assets are included in the balance sheets;

- Assets not specifically identified as an admitted asset by the NAIC are designated as nonadmitted under statutory accounting. Nonadmitted assets are excluded from the statutory basis financial statements and are charged directly to unassigned surplus. Under GAAP, such assets are included in the balance sheet;
- The reserves ceded to reinsurers for claims unpaid and aggregate health claim reserves have been reported as reductions of the related reserves rather than as assets, which would be required under GAAP;
- The unexpired portion of accident and health insurance premiums is recorded as premium received in advance; the corresponding change in unearned premium from year to year is reflected as a change in unearned premium reserves and reserve for rate credits in the statutory basis statements of operations. Under GAAP, the change in unearned premium from year to year is reported through premium income:
- Comprehensive income and its components are not presented in the statutory basis financial statements;
- Cash and short-term investments in the statutory basis statements of cash flows represent cash
  balances and investments with original maturities of one year or less from the time of acquisition.
  Under GAAP, the corresponding caption of cash and cash equivalents includes cash balances and
  cash equivalents with maturities of three months or less. The statutory basis statements of cash flows
  are prepared in accordance with the NAIC Annual Statement Instructions.

The Department recognizes only statutory accounting practices prescribed or permitted by the State of Arkansas for determining and reporting the financial condition and results of operations of an HMO and for determining its solvency under Arkansas insurance law. The NAIC *Accounting Practices and Procedures Manual* (NAIC SAP) has been adopted with modifications as a component of prescribed or permitted practices by the State of Arkansas.

The Department has approved certain permitted accounting practices that differ from those found in the NAIC SAP. The Department has determined that the Company's investments in the investment pool administered by UHS be considered as an investment in "one person" and is to be limited to no more than 5% of the Company's total admitted assets, pursuant to Arkansas Code Annotated (ACA) 23-63-805(1)(A), unless the Commissioner authorizes the Company to exceed the statutory limit. The Company requested permission to exceed the statutory limit, and the Department has agreed to allow the Company to invest up to 20% of the Company's total admitted assets in the UHS investment pool. No investments exceeded the 20% statutory limit at December 31, 2011 and 2010, respectively, and accordingly, no nonadmitted assets are reflected in unassigned surplus in the statutory basis financial statements. Had the 5% limit per ACA 23-63-805(1)(A) been followed as of December 31, 2011 and 2010, total admitted assets and total capital and surplus would have been reduced by approximately \$1,090,000 and \$1,306,000, respectively. There was no impact on regulatory risk-based capital (RBC) event due to the Company obtaining permission to exceed the limit of the Arkansas statute. The differences between permitted practices by the State of Arkansas and NAIC SAP did not materially affect the statutory basis net income, capital and surplus, and total admitted assets, as illustrated in the table below (in thousands):

	2011	2010
Net Income — Arkansas basis	\$ 1,794,000	\$ 1,370,000
Net Income — NAIC SAP	\$ 1,794,000	\$ 1,370,000
Capital and surplus — Arkansas basis	\$ 7,078,000	\$ 6,492,000
Capital and surplus — NAIC SAP	\$ 7,078,000	\$ 6,492,000
Total admitted assets — Arkansas basis	\$ 13,483,000	\$ 10,556,000
Total admitted assets — NAIC SAP	\$13,483,000	\$ 10,556,000

Use of Estimates — The preparation of these statutory basis financial statements in conformity with the NAIC Annual Statement Instructions and the NAIC SAP include certain amounts that are based on the Company's estimates and judgments. These estimates require the Company to apply complex assumptions and judgments, often because the Company must make estimates about the effects of matters that are inherently uncertain and will change in subsequent periods. The most significant estimates relate to hospital and medical benefits, claims unpaid, and aggregate health policy reserves and aggregate health claim reserves (collectively known as "aggregate health reserves") The Company adjusts these estimates each period as more current information becomes available. The impact of any changes in estimates is included in the determination of net income in the period in which the estimate is adjusted.

**Cash and Invested Assets** — Cash represent cash held by the Company in disbursement accounts. Claims and other payments are made from the disbursement accounts daily. Cash overdrafts are a result of timing differences in funding disbursement accounts for claims payments.

Short-term investments represent money market instruments with a maturity of greater than three months but less than one year at the time of purchase. Short-term investments also consist of the Company's share of an investment pool sponsored and administered by UHS for the benefit of the UHS-owned health plans. The investment pool consists principally of investments with original maturities of less than one year, with the average life of the individual investments being less than 60 days. The Company's share of the pool represents an undivided ownership interest in the pool and is immediately convertible to cash at no cost or penalty. The participants within the pool have an individual fund number to track those investments owned by the Company. In addition, the Company has executed a custodial agreement whereby the Company's share in the investment pool is segregated and separately maintained. The pool is primarily invested in government obligations, commercial paper, certificates of deposit, and short-term agency notes and is recorded at cost or amortized cost. Interest income from the pool accrues daily to participating members based upon ownership percentage.

Bonds include U.S. government obligations with a maturity of greater than one year at the time of purchase.

Bonds and short-term investments are stated at amortized cost if they meet NAIC designation of one or two and stated at the lower of amortized cost or fair value if they meet an NAIC designation of three or higher. Amortization of bond premium or discount is calculated using the constant-yield interest method. Bonds and short-term investments are valued and reported using market prices published by the SVO in accordance with the NAIC Valuations of Securities manual prepared by the SVO or an external pricing service.

Realized capital gains and losses on sales of investments are calculated based upon specific identification of the investments sold. These gains and losses are reported as net realized capital gains less capital gains tax in the statutory basis statements of operations.

The Company continually monitors the difference between amortized cost and estimated fair value of its investments. If any of the Company's investments experience a decline in value that the Company has determined is other-than-temporary, the Company records a realized loss in net realized capital gains less capital gains tax in the statutory basis statements of operations as the Company has made the determination to sell the security. The new cost basis is not changed for subsequent recoveries in fair value. The prospective adjustment method is utilized for mortgage-backed securities for periods subsequent to the loss recognition. The Company has not recorded any other-than-temporary impairments for the years ended December 31, 2011 and 2010.

**Investment Income Due and Accrued** — Investment income earned and due as of the reporting date in addition to investment income earned but not paid or collected until subsequent periods are reported as investment income due and accrued in the statutory basis statements of admitted assets, liabilities, and capital and surplus. The Company evaluates the collectability of the amounts due and amounts determined to be uncollectible are written off in the period in which the determination is made.

**Net Investment Income Earned** — Net investment income earned includes investment income collected during the period, as well as the change in investment income due and accrued on the Company's holdings. Amortization of premium or discount on bonds and certain external investment management costs are also included in net investment income earned (see Note 7).

Receivables from Parent, Subsidiaries, and Affiliates and Amounts Due to Parent, Subsidiaries, and Affiliates — In the normal course of business, the Company has various transactions with related parties (see Note 10). The Company reports any unsettled amounts due or owed as receivables from parent, subsidiaries, and affiliates and amounts due to parent, subsidiaries, and affiliates, respectively, in the statutory basis statements of admitted assets, liabilities, and capital and surplus. The Company has excluded receivables that do not meet the admissibility criteria from the statutory basis statements of admitted assets, liabilities, and capital and surplus.

Hospital and Medical Expenses, Claims Unpaid, and Aggregate Health Reserves — Hospital and medical expenses and corresponding liabilities include claims paid, claims processed but not yet paid, estimates for claims received but not yet processed, estimates for the costs of health care services enrollees have received but for which claims have not yet been submitted, and for liabilities for physician, hospital, and other medical costs disputes.

The estimates for incurred but not yet reported claims are developed using an actuarial process that is consistently applied, centrally controlled and automated. The actuarial models consider factors such as historical submission and payment data, cost trends, customer and product mix, seasonality, utilization of health care services, contracted service rates, and other relevant factors. The Company estimates liabilities for physician, hospital and other medical cost disputes based upon an analysis of potential outcomes, assuming a combination of litigation and settlement strategies. The estimates may change as actuarial methods change or as underlying facts upon which estimates are based change. The Company did not change actuarial methods during 2011 and 2010. Management believes the amount of claims unpaid and aggregate health reserves is adequate to cover the Company's liability for unpaid claims and aggregate health reserves as of December 31, 2011; however, actual payments may differ from those established estimates. Adjustments to claims unpaid estimates and aggregate health reserves are reflected in operating results in the period in which the change in estimate is identified.

The Company contracts with hospitals, physicians, and other providers of health care under capitated or discounted fee for service arrangements, including a hospital per diem to provide medical care services to enrollees. Some of these contracts are with related parties (see Note 10). Capitated providers are at risk for the cost of medical care services provided to the Company's enrollees; however, the Company is ultimately responsible for the provision of services to its enrollees should the capitated provider be unable to provide the contracted services.

Amounts Receivable Relating to Uninsured Plans and Liability for Amounts Held Under **Uninsured Plans** — Receivables and liabilities for amounts held under uninsured plans represent the cost reimbursement under the Medicare Part D program for the catastrophic reinsurance subsidy and the low-income member cost-sharing subsidy. The Company is fully reimbursed by CMS for costs incurred for these contract elements and, accordingly, there is no insurance risk to the Company. Amounts received for these subsidies are received monthly and are not reflected as net premium income, but rather are accounted for as deposits. Beginning in 2011, the Patient Protection and Affordable Care Act and its related reconciliation act (Health Reform Legislation) mandates consumer discounts of 50% on brand name prescription drugs for Part D plan participants in the coverage gap (Coverage Gap Discount Program or CGDP). These discounts are pre-funded by CMS, and ultimately reimbursed by pharmaceutical manufacturers, and the Company solely administers the application of these funds and has no insurance risk. If the Company incurs costs either in excess of or less than these subsidies, a corresponding receivable or payable is recorded in amounts receivable relating to uninsured plans or liability for amounts held under uninsured plans in the statutory basis statements of admitted assets, liabilities, and capital and surplus. Related cash flows are presented within operating expenses paid within cash provided by operations in the statutory basis statements of cash flows.

**Net Deferred Tax Asset and Federal Income Taxes Incurred** — Statutory accounting requires an amount to be recorded for deferred taxes on temporary differences between the financial reporting and tax bases of assets and liabilities, subject to a valuation allowance and admissibility limitations on deferred tax assets (see Note 9). The provision for federal income taxes incurred is calculated based on applying the statutory federal income tax rate of 35% to net income before federal income taxes plus capital gains tax subject to certain adjustments (see Note 9).

Claims Adjustment Expenses — Claims adjustment expenses (CAE) are those costs expected to be incurred in connection with the adjustment and recording of accident and health claims. Pursuant to the terms of the Management Agreement (Agreement), the Company pays a management fee to UHS in exchange for administrative and management services. A detailed review of UHS' and the Company's administrative expenses is performed to determine the allocation between CAE and general administrative expenses. It is the responsibility of UHS to pay CAE in the event the Company ceases operations. The Company has recorded an estimate of unpaid claims adjustment expenses associated with incurred but unpaid claims, which is included in general expenses due or accrued in the statutory basis statements of admitted assets, liabilities, and capital and surplus. Management believes the amount of the liability for unpaid claims adjustment expenses as of December 31, 2011 is adequate to cover the

Company's cost for the adjustment and recording of unpaid claims; however, actual expenses may differ from those established estimates. Adjustments to the estimates for unpaid claims adjustment expenses are reflected in operating results in the period in which the change in estimate is identified.

**Remittances and Items Not Allocated** — Remittances and items not allocated generally represent monies received from policyholders for monthly premium billings that have not been entered into the billing system. The majority is from monies received in the lockbox account on the last day of the year.

General Administrative Expenses — Pursuant to the terms of the Agreement (see Note 10), the Company pays a management fee to UHS in exchange for administrative and management services. Costs for items not included within the scope of the management agreement are directly expensed as incurred. Premium taxes are also a component of general administrative expenses. A detailed review of UHS' and the Company's administrative expenses is performed to determine the allocation between claims adjustment expenses and general administrative expenses to be reported in the statutory basis statements of operations.

Revenues — Revenues consist of commercial net premium income that is recognized in the period in which enrollees are entitled to receive health care services. Net premium income is shown net of reinsurance premiums. Effective in 2011, commercial health plans with medical loss ratios on fully insured products, as calculated under the definitions in the Patient Protection and Affordable Care Act and its related reconciliation act (Health Reform Legislation) (see Note 14) and implementing regulations, that fall below certain targets are required to rebate ratable portions of premiums annually. The Company classifies its estimated rebates as change in unearned premium reserves and reserves for rate credits in the accompanying statutory basis statements of operations. Premiums received in full during the current period which are not due until future periods are recorded as premiums received in advance in the accompanying statutory basis statements of admitted assets, liabilities, and capital and surplus. Unearned premiums are established for the portion of premiums received during the current period that are partially unearned at the end of the period and are included in aggregate health policy reserves in the accompanying statutory basis statements of admitted assets, liabilities, and capital and surplus.

Net premium income includes the Medicare Advantage CMS premium, and the premium under the Medicare Part D program, which includes, CMS premium, member premium, and low-income premium subsidy for the Company's insurance risk coverage. Net premium income is recognized ratably over the period in which eligible individuals are entitled to receive health care services and prescription drug benefits. The Company estimates retrospective premiums adjustments based on guidelines determined by CMS (see Note 24).

CMS deploys a risk adjustment model that apportions premiums paid to all health plans according to health severity and certain demographic factors. The CMS risk adjustment model pays more for members whose medical history indicates they have certain medical conditions. Under this risk adjustment methodology, CMS calculates the risk adjusted premium payment using diagnosis data from hospital inpatient, hospital outpatient and physician treatment settings. The Company and health care providers collect, capture, and submit the necessary and available diagnosis data to CMS within prescribed deadlines. The Company estimates risk adjustment revenues based upon the diagnosis data submitted and expected to be submitted to CMS which result in changes to its Medicare revenues. The Company recognizes such changes when the amounts become determinable and supportable and collectability is reasonably assured. The estimated risk-adjusted payments due to the Company at December 31, 2011 and 2010, were approximately \$431,000 and \$60,000, respectively, and are recorded as uncollected premiums in the statutory basis statements of admitted assets, liabilities, and capital and surplus. The Company recognized approximately \$3,000 and \$46,000 for changes in prior year Medicare risk factor estimates during the years ended December 31, 2011 and 2010, respectively, which is recorded as net premium income within the statutory basis statements of operations.

The Company reports uncollected premium balances from its insured members as uncollected premiums on the statutory basis statements of admitted assets, liabilities and capital and surplus. Uncollected premium balances that are over 90 days past due, with the exception of amounts due from government insured plans, are considered nonadmitted assets. In addition to those balances, current balances are also considered nonadmitted if the corresponding balance greater than 90 days past due is deemed more than inconsequential.

**Reinsurance Ceded** — The Company has an insolvency-only reinsurance agreement. Reinsurance premiums paid and incurred are deducted from net premium income in the accompanying statutory basis financial statements.

**Ceded Reinsurance Premiums Payable** —The Company has an insolvency-only reinsurance agreement whereby 0.10% of net premium income is ceded to UnitedHealthcare Insurance Company (UHIC). The ceded reinsurance premiums payable balance represents amounts due to the reinsurer for coverage which will be paid based on the contract terms.

**Incentive Pool** — The Company has agreements with certain independent physicians and physician network organizations that provide for the establishment of a fund into which the Company places monthly premiums payable for members assigned to the physician. The Company manages the disbursement of funds from this account as well as reviews the utilization of nonprimary care medical services of members assigned to the physicians. Any surpluses or deficits in the fund are shared by the Company and the physician based upon predetermined risk-sharing percentage and the liability is included in accrued medical incentive pool and bonus amounts in the statutory basis statements of admitted assets, liabilities, and capital and surplus, and the corresponding expense or reduction to expense is included in incentive pool, withhold adjustments, and bonus amounts in the statutory basis statements of operations.

Medical Risk Share — The Company has settlements with CMS based on whether the ultimate per member per month benefit costs of any Medicare Part D program regional plan varies more than 5% above or below the level estimated in the original bid submitted by the Company and approved by CMS in 2011 and 2010. The estimated risk share adjustment of approximately \$4,000 and \$44,000 in 2011 and 2010, respectively, is recorded as a decrease to change in unearned premium reserves and reserve for rate credits in the statutory basis statements of operations and aggregate health policy reserves in the statutory basis statements of admitted assets, liabilities, and capital and surplus.

Health Care Receivables — Health care receivables consist of pharmacy rebate receivables estimated based on the most currently available data from the Company's claims processing systems and from data provided by the Company's unaffiliated pharmaceutical benefit manager and affiliated pharmaceutical benefit manager, OptumRx, Inc. ("OptumRx - formerly Rx Solutions, Inc."). Health care receivables are considered nonadmitted assets for statutory purposes if they do not meet admissibility requirements. Accordingly, the Company has excluded receivables that do not meet the admissibility criteria from the statutory basis statements of admitted assets, liabilities, and capital and surplus (see Note 28).

Premium Deficiency Reserves — Premium deficiency reserves and the related expenses are recognized when it is probable that expected future health care expenses, claim adjustment expenses, direct administration costs, and an allocation of indirect administration costs under a group of existing contracts will exceed anticipated future premiums and reinsurance recoveries considered over the remaining lives of the contracts and are recorded as aggregate health policy reserves in the statutory basis statements of admitted assets, liabilities, and capital and surplus. Indirect administration costs arise from activities that are not specifically identifiable to a specific group of existing contracts and therefore, those costs are fully allocated among the various contract groupings. The allocation of indirect administration costs to each contract grouping is made proportionately to the expected margins remaining in the premiums after future health care expenses, claim adjustment expenses and direct administration costs are considered. The methods for making such estimates and for establishing the resulting reserves are periodically reviewed and updated, and any adjustments are reflected in increase or (decrease) in reserves for accident and health contracts in the accompanying statutory basis statements of operations in the period in which the change in estimate is identified. The Company anticipates investment income as a factor in the premium deficiency calculation (see Note 30).

**Vulnerability Due to Certain Concentrations** — The Company is subject to substantial federal and state government regulation, including licensing and other requirements relating to the offering of the Company's existing products in new markets and offerings of new products, both of which may restrict the Company's ability to expand its business.

The Company has one customer that accounted for approximately 13% and 20% of direct premium income for the years ended December 31, 2011 and 2010, respectively. The Company has one customer that accounted for 31.83% of uncollected premiums as of December 31, 2011. The Company had no customers that accounted for more than 10% of uncollected premiums as of December 31, 2010.

Direct premium income from members and CMS related to Medicare Advantage and the Medicare Part D program as a percentage of direct premium income are 70.6% and 51.0% for the years ended December 31, 2011 and 2010, respectively.

**Restricted Cash Reserves** — The Company is required by the State of Arkansas to maintain a minimum regulatory deposit (currently \$300,000). The Company is in compliance with this requirement as of December 31, 2011 and 2010. This restricted cash reserve consists principally of government obligations and are stated at amortized cost, which approximates fair value. This reserve is included in bonds in the accompanying statutory basis statements of admitted assets, liabilities, and capital and surplus. Interest earned on this reserve accrues to the Company.

Minimum Capital and Surplus — Under the laws of the state of Arkansas, the Department requires the Company to maintain a minimum capital and surplus of \$100,000. The Company has approximately \$7,078,000 and \$6,492,000 in total statutory basis capital and surplus as of December 31, 2011 and 2010 respectively, which is in compliance with the required amount.

Risk-based capital (RBC) is a regulatory tool for measuring the minimum amount of capital appropriate for a managed care organization to support its overall business operations in consideration of its size and risk profile. The Department requires the Company to maintain minimum capital and surplus equal to the greater of the state statute as outlined above or the health trend test level as recently adopted by the state of Arkansas which requires the Company to maintain higher capital and surplus levels based on the current excess over the predefined RBC limits as calculated by the RBC model. The Company is in compliance with the required amount.

**Recently Issued Accounting Standards** — In December 2010, the NAIC adopted revisions to Statement of Statutory Accounting Principles (SSAP) No. 10R, *Income Taxes – Revised*, *A Temporary Replacement of SSAP No. 10* (SSAP No. 10R), which extended the effective date of the temporary replacement through the interim and annual financial statement periods of 2011. The revision to the temporary standard adds additional disclosures related to the impact of tax planning strategies and the nature of the net admitted deferred tax assets by percentage and tax character. These disclosures are incorporated in Note 9 – Income Taxes, as applicable.

In December 2010, the NAIC issued revisions to SSAP No. 100, *Fair Value Measurements* (SSAP No. 100). SSAP No. 100 established a framework for measuring fair value and establishes disclosure requirements about fair value. The original statement was early adopted for December 31, 2009, with interim and annual financial statement reporting thereafter. The 2010 revisions to SSAP No. 100 relate to the reporting and disclosure of investments measured and reported at fair value and are effective for December 31, 2010 annual financial statements. The Company adopted the revisions to SSAP No. 100 as of December 31, 2010, and the related disclosure requirements are outlined in Note 20– Fair Value Measurements.

In October 2010, the NAIC issued SSAP No. 5R, *Liabilities, Contingencies and Impairments of Assets – Revised* (SSAP No. 5R), effective for all guarantees issued or outstanding as of December 31, 2011. The revised standard requires entities to recognize, at the inception of a guarantee, a liability for the obligations it has undertaken in issuing the guarantee, even if the likelihood of having to make payments under the guarantee is remote. The impact of adoption was immaterial to the overall financial condition, results of operations and cash flows of the Company.

In October 2010, the NAIC issued SSAP No. 35R, *Guaranty Fund and Other Assessments – Revised* (SSAP No. 35R) which contains substantive revisions to certain paragraphs of SSAP No. 35 and is initially effective for the reporting period beginning January 1, 2011. The result of applying this revised Statement shall be considered a change in accounting principle in accordance with SSAP No. 3, *Accounting Changes and Corrections of Errors*. The revised standard modifies the conditions required before recognizing liabilities for insurance-related assessments. Under SSAP No. 35R, the liability is not recognized until an assessment has been imposed or is probable and the event obligating an entity to pay an imposed or probable assessment has occurred and can be reasonably estimated. Additionally, under this revised standard an asset relating to future premium tax offsets or policy surcharges shall be recognized at the time the liability is recorded, considering expected future premiums on in-force policies for long-term contracts. The impact of adoption was immaterial to the overall financial condition, results of operations and cash flows of the Company.

In November 2011, the NAIC adopted Statement of Statutory Accounting Principles (SSAP) No. 101, *Income Taxes* — *A Replacement of SSAP No. 10R and SSAP No. 10*, effective for 2012 interim and annual financial statements and beyond. The new standard includes revised guidance for tax contingencies, non-elective deferred tax asset admissibility test along with significant modifications to the deferred tax asset admissibility test, and disclosure modifications. A change resulting from the adoption of this revised statement shall be accounted for prospectively. The Company has assessed the impact of adopting SSAP No. 101 and believes that there will not be a material impact of total capital and surplus.

### 2. ACCOUNTING CHANGES AND CORRECTION OF ERRORS

No changes in accounting principles have been recorded during the years ended December 31, 2011 and 2010.

#### 3. BUSINESS COMBINATIONS AND GOODWILL

The Company was not party to a business combination during the years ended December 31, 2011 and 2010, and does not carry goodwill in its statutory basis statements of admitted assets, liabilities, and capital and surplus.

### 4. DISCONTINUED OPERATIONS

The Company did not discontinue any operations during 2011 and 2010.

### 5. INVESTMENTS AND OTHER INVESTED ASSETS

The Company has no mortgage loans, real estate loans, restructured debt, reverse mortgages, repurchase agreements, or investments in low-income housing tax credits and does not participate in securities lending activities. The Company also has no real estate property occupied by the Company, real estate property held for the production of income, or real estate property held for sale. Total proceeds on the sale of short term investments were approximately \$41,113,000 and \$20,184,000 in 2011 and 2010, respectively.

The Company does not have any gross realized gains or losses at December 31, 2011 and 2010.

As of December 31, 2011 and 2010, the amortized cost, fair value, and gross unrealized holding gains and losses of the Company's investments, excluding cash of approximately \$8,932,000 and \$7,379,000 respectively, are as follows (in thousands):

			2011		
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses <1 year	Gross Unrealized Holding Losses > 1 year	Fair Value
U.S. government and agency Money market funds	\$ 300 1,765	\$ 6	\$ - 	\$ - 	\$ 306 1,765
Total bonds and short-term investments	\$ 2,065	\$ 6	\$ -	\$ -	\$ 2,071
			2011		
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses < 1 year	Gross Unrealized Holding Losses > 1 year	Fair Value
Less than one year	\$ 2,065	\$ 6	\$ -	\$	\$ 2,071
Total bonds and short-term investments	\$ 2,065	<u>\$ 6</u>	<u>\$ -</u>	<u>\$ -</u>	\$ 2,071
			2010		
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses < 1 year	Gross Unrealized Holding Losses > 1 year	Fair Value
U.S. government and agency Money market funds	\$ 300 1,867	\$ 18 	\$ - 	\$ - -	\$ 318 1,867
Total bonds and short-term investments	\$ 2,167	\$ 18	<u>\$ -</u>	<u>\$ -</u>	\$ 2,185

The Company does not have any mortgage-backed securities as of December 31, 2011 and 2010

The Company does not have any gross unrealized losses as of December 31, 2011 and 2010, and therefore there is no evaluation for other-than-temporary impairment.

### 6. JOINT VENTURES, PARTNERSHIPS, AND LIMITED LIABILITY COMPANIES

The Company has no investments in joint ventures, partnerships, or limited liability companies.

### 7. INVESTMENT INCOME

The Company has admitted all investment income due and accrued in the accompanying statutory basis statements of admitted assets, liabilities, and capital and surplus.

The components of net investment income earned at December 31, 2011 and 2010, are as follows (in thousands):

	2	011	2	010
Bonds Cash and short-term investments	\$	14 7	\$	14 6
Total investment income earned		21		20
Expenses — investment management fees		(2)		(4)
Net investment income earned	\$	19	\$	16

### 8. DERIVATIVE INSTRUMENTS

The Company has no derivative instruments.

#### 9. INCOME TAXES

The components of the net deferred tax asset for the years ended December 31, 2011 and 2010, are as follows (in thousands):

			2011					2010					Change		
•	Or	dinary	Capital	T	'otal	Oro	linary	Capital	7	otal	Or	dinary	Capital	T	otal
Gross deferred tax asset Statutory valuation allowance	\$	64	\$	\$	64	\$	50	\$	\$	50	\$	14	\$	\$	14
Adjusted gross deferred tax ass Gross deferred tax liabilitites		64			64		50			50		14			14
Net deferred tax asset Deterred tax asset nonadmitted		64			64	_	50			50	_	14			14
Net admitted deferred tax asset	\$	64	\$	\$	64	\$	50	\$	\$	50	\$	14	\$	\$	14

The components of the adjusted gross deferred tax assets admissibility calculation under SSAP No. 10R, *Income Taxes – Revised, A Temporary Replacement of SSAP No. 10*, are as follows (in thousands):

SSAP 10I			011	201			Change	
Paragrap		Ordinary Ca	apital Total	Ordinary Cap	ital Total	Ordinary	Capital	Total
	Federal income taxes							
¶ 10.a	recoverable through loss	64	64	50	50	14		14
	carryback							
	Adjusted gross deferred tax							
	assets expected to be realized							
¶ 10.b.i.	within one year of the balance							
	sheet date not recovered via							
	loss carrybacks							
	Ten percent adjusted statutory							
¶ 10.b.ii.	capital and surplus shown on		751		720			31
1 10.0.11.	most recently filed financial		731		720			31
	statement							
	Admitted pursuant to ¶ 10b							
	(lesser of i. or ii.)							
	Adjusted gross deferred tax							
	assets after application of							
¶ 10.c	above items that can be offset							
-	against existing gross deferred				<u> </u>	<u> </u>		
	tax liabilities							
	Admitted deferred tax asset	64	64	50	50	14		14
	Tallities deleted the delete		_					—

The Company has not elected to admit additional deferred tax assets under the expanded admissibility test

No additional adjusted gross deferred tax assets are included in the accompanying statutory basis statements of admitted assets, liabilities, and capital and surplus as a result of tax-planning strategies.

The results from the deferred tax asset admissibility calculation in relation to total admitted assets and total capital and surplus is presented below (in thousands):

	2011			2010				Change					
	Ordinary	Capital	•	Total	Ordinary	Capital	T	Total	Or	dinary	Capital	1	Fotal
Admitted deferred tax asset	\$ 64	\$ -	\$	64	\$ 50	\$ -	\$	50	\$	14	\$ -	\$	14
Total admitted assets at December 31			1	13,483			10	),556				2	2,927
Adjusted capital and suprlus at September 30				7,864			7	7,201					663
Total capital and surplus from net deferred tax assets at December 3	1			7,078			$\epsilon$	5,492					586

There are no unrecognized deferred tax liabilities.

The current federal income taxes incurred for the years ended December 31, 2011 and 2010, are as follows (in thousands):

	2011			2010	Change		
Federal income taxes incurred Capital gains tax	\$	976 -	\$	365 1	\$	611 1	
Total current federal income taxes incurred	\$	976	\$	366	\$	612	

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2011 and 2010, are as follows (in thousands):

	2011	2010	Change
Ordinary deferred tax assets:			
Unpaid losses and CAE	\$ 33		\$ 11
Premiums received in advance	(	·	(6)
Nonadmitted assets Bad debt	20	) 13	$\frac{7}{2}$
Subtotal ordinary gross deferred tax asset	64	4 50	14
Nonadmitted ordinary deferred tax asset			
Admitted ordinary deferred tax asset	64	50	14
Capital deferred tax assets	-	-	-
Nonadmitted capital deferred tax as set			
Admitted capital deferred tax asset		<u> </u>	
Total admitted deferred tax asset	64	50	14
Total deferred tax liabilities		<u> </u>	
Net deferred tax asset	\$ 64	<u>\$ 50</u>	<u>\$ 14</u>

The Company assessed the potential realization of the gross deferred tax asset and as a result no statutory valuation allowance was required and no allowance was established as of December 31, 2011 and 2010. The application of the statutory valuation allowance is required under SSAP No. 10R effective for 2009 through 2011. The change in the valuation allowance is attributable to the change in timing of deductibility of expenses and/or expectations for future taxable income.

The provision for federal income taxes incurred is different from that which would be obtained by applying the statutory federal income tax rate of 35% to net income before federal income taxes plus capital gains tax. The significant items causing this difference are as follows (in thousands):

	2	2011	2010
Tax provision at the federal statutory rate Tax effect of nonadmitted assets	\$	969 (7)	\$ 607 22
Total	\$	962	\$ 629
Federal income taxes incurred Capital gains tax	\$	976	\$ 365 1
Change in net deferred tax asset		(14)	 263
Total statutory income taxes	\$	962	\$ 629

At December 31, 2011, the Company had no net operating loss carryforwards.

Current federal income taxes recoverable of approximately \$1,017,000 and \$557,000 as of December 31, 2011 and 2010, respectively, are included in the accompanying statutory basis statements of admitted assets, liabilities, and capital and surplus. Federal income taxes paid, net of refunds was approximately \$1,436,000 and \$1,175,000 in 2011 and 2010, respectively.

Federal income taxes incurred of approximately \$976,000 and \$366,000 for 2011 and 2010, respectively, is available for recoupment in the event of future net losses.

The Company has not admitted any aggregate amounts of deposits that are included within Section 6603 ("Deposits made to suspend running of interest on potential underpayments, etc.") of the Internal Revenue Service Code.

The Company does not have a provision for tax contingencies recorded as of December 31, 2011 or 2010

The Company is included in a consolidated federal income tax return with its ultimate parent, UnitedHealth Group. The entities included within the consolidated return are included in NAIC Statutory Statement Schedule Y – Information Concerning Activities of Insurer Members Of A Holding Company Group. Federal income taxes are paid to or refunded by UnitedHealth Group pursuant to the terms of a tax-sharing agreement, approved by the Board of Directors, under which taxes approximate the amount that would have been computed on a separate company basis, with the exception of net operating losses and capital losses. For these losses, the Company receives a benefit at the federal rate in the current year for current taxable losses incurred in that year to the extent losses can be utilized in the consolidated federal income tax return of UnitedHealth Group. UnitedHealth Group currently files income tax returns in the U.S. federal jurisdiction, various states, and foreign jurisdictions. The U.S. Internal Revenue Service (IRS) has completed exams on UnitedHealth Group's consolidated income tax returns for fiscal years 2010 and prior. UnitedHealth Group's 2011 tax return is under advance review by the IRS under its Compliance Assurance Program (CAP). With the exception of a few states, UnitedHealth Group is no longer subject to income tax examinations prior to 2004 in major state and foreign jurisdictions. The Company does not believe any adjustments that may result from these examinations will be material to the Company.

### 10. INFORMATION CONCERNING PARENT, SUBSIDIARIES, AND AFFILIATES

Effective January 1, 2011, the Company entered into a revised Agreement with United HealthCare Services, Inc. (UHS). This Agreement has been approved by the Department. UHS will continue to provide management services to the Company under a revised fee structure that is changing from a fee based on a percentage of net premium income and change in unearned premium reserves and reserve rate credits to a direct charge based on UHS' expenses for services or use of assets provided to the Company. Management fees under this arrangement totaled approximately \$2,882,000 and \$2,773,000 in 2011 and 2010, respectively, and are included in general administrative expenses and claims adjustment expenses in the accompanying statutory basis statements of operations. In addition, UHS pays certain direct expenses, such as broker commissions, DOI exam fees, premium taxes on the behalf of the Company. UHS is reimbursed by the Company for these expenses.

Management believes that its transactions with affiliates are fair and reasonable; however, operations of the Company may not be indicative of those that would have occurred if it had operated as an independent company.

The Company expensed as hospital and medical expenses, general administrative expenses, and claims adjustment expenses of approximately \$579,000 and \$464,000 in capitation fees, administrative services, and access fees to related parties during 2011 and 2010, respectively. Under the Agreement, effective for January 2011, UHS provides or arranges for services on behalf of the Company using a pass-through of charges incurred by UHS, Inc. on a Per Member Per Month (PMPM) basis (where the charge incurred by UHS is on a PMPM basis) or using another allocation methodology consistent with the Agreement. These services include, but are not limited to, integrated personal health management solutions, such as disease management, treatment decision support and wellness services, including a 24-hour call-in service, access to a network of transplant providers and discount program services. OptumHealth Care Solutions, Inc. (formerly ACN Group, Inc.) provides chiropractic and physical therapy services. Spectera, Inc. provides administrative services related to vision benefit management and claims processing, Dental Benefit Providers, Inc., provides dental care assistance, and United Behavioral Health, Inc. provides mental health and substance abuse services.

The capitation expenses, administrative services, and access fees paid to related parties, that are included as hospital and medical expenses, general administrative expenses, and claims adjustment expenses in the accompanying statutory basis statements of operations for the years ended December 31, 2011 and 2010, are shown below (in thousands):

	2011	2010		
United Behavioral Health	\$ 315	\$	298	
UHS	210		130	
OptumHealth Care Solutions, Inc. (formerly ACN Group, Inc.)	15		14	
Spectera, Inc.	5		9	
Dental Benefit Providers, Inc.	 34		13	
Total	\$ 579	\$	464	

The Company contracts with OptumRx to provide administrative services related to pharmacy management and pharmacy claims processing for its enrollees. Fees related to these agreements, which are calculated on a per-claim basis, of approximately \$153,000 and \$71,000 in 2011 and 2010, respectively, are included in general administrative expenses and claims adjustment expenses in the accompanying statutory basis statements of operations. Additionally, OptumRx collects rebates on certain pharmaceutical products based on member utilization. Rebates related to these agreements of approximately \$1,192,000 and 699,000 in 2011 and 2010, respectively, are included as a reduction of prescription drugs in the accompanying statutory basis statements of operations.

The Company has agreements with OptumInsight (formerly "Ingenix, Inc."), a wholly owned subsidiary of UnitedHealth Group, for services that lead up to and include the prevention and recovery of medical expense (benefit) overpayments. Percentages of every recovery are retained by OptumInsight as service fees based on the services performed. Recoveries, net of fees, are returned to the Company on a monthly basis. Service fees of approximately \$54,000 and \$0 are included in general administrative expenses and claims adjustment expenses in the accompanying statutory basis statements of operations for the years ended December 31, 2011 and 2010, respectively.

The Company has premium payments that are received and claim payments that are processed by an affiliated UnitedHealth Group entity. Both premiums and claims applicable to the Company are settled at regular intervals throughout the month via the intercompany settlement process and any amounts outstanding are reflected in amounts due to parent, subsidiaries, and affiliates in the accompanying statutory basis statements of admitted assets, liabilities and capital and surplus.

The Company has an insolvency-only reinsurance agreement with United Healthcare Insurance Company (UHIC), a wholly owned subsidiary of UHIC Holdings, Inc. which is a wholly owned subsidiary of UHS, to provide insolvency protection for its enrollees. Reinsurance premiums, which are calculated on a percentage of member premium income, of approximately \$37,000 in 2011 and \$23,000 in 2010 are netted against net premium income in the accompanying statutory basis statements of operations.

The Company holds a \$3,000,000 subordinated revolving credit agreement with UnitedHealth Group at an interest rate of LIBOR plus a margin of 0.50%. This credit agreement is subordinate to the extent it does not conflict with any credit facility held by either party. The aggregate principal amount that may be outstanding at any time is the lesser of 3% of the Company's admitted assets or 25% of the Company's policyholder surplus as of the preceding December 31. The credit agreement is for a one-year term and automatically renews annually, unless terminated by either party. The agreement was renewed effective December 31, 2011. No amounts were outstanding under the line of credit as of December 31, 2011 and 2010.

At December 31, 2011 and 2010, the Company reported approximately \$247,000 and \$159,000, respectively, as amounts due to parent, subsidiaries, and affiliates, which are included in the statutory basis statements of admitted assets, liabilities, and capital and surplus. These balances are generally settled within 90 days from the incurred date. Any balances due to the Company that are not settled within 90 days are considered nonadmitted assets. The Company pays interest expense on the monthly average balance in the net amounts due to parent, subsidiaries, and affiliates account, which is calculated at a fluctuating rate that approximates the prime rate. Net interest expense incurred by the Company in 2011 and 2010 relating to this balance was approximately \$7,000 and \$5,000, respectively. Interest expense is included in general administrative expenses and claims adjustment expenses in the accompanying statutory basis statements of operations.

In addition to the agreements above, UHS maintains a private short-term money market investment pool in which affiliated companies may participate (see Note 1). At December 31, 2011 and 2010, the Company's portion was approximately \$1,765,000 and \$1,800,000, respectively, and is included in cash, and short-term investments in the accompanying statutory basis statements of admitted assets, liabilities, and capital and surplus.

The Company has entered into a Tax Sharing Agreement with UnitedHealth Group (see Note 9).

The Company paid dividends of \$1,200,000 and \$0 in 2011 and 2010, respectively, to its parent (see Note 13).

The Company does not have any investments in a subsidiary, controlled, or affiliated entity that exceeds 10% of admitted assets.

The Company has not extended any guarantees or undertakings for the benefit of an affiliate or related party, it does not have any investments in a foreign insurance subsidiary and it does not hold any investments in a downstream noninsurance holding company.

#### 11. DEBT

The Company had no outstanding debt with third parties during 2011 and 2010.

# 12. RETIREMENT PLANS, DEFERRED COMPENSATION, POSTEMPLOYMENT BENEFITS AND COMPENSATED ABSENCES, AND OTHER POSTRETIREMENT BENEFIT PLANS

The Company has no retirement plan, deferred compensation, or other benefit plans, since all personnel are employees of UHS, which provides services to the Company under the terms of a management agreement (see Note 10).

# 13. CAPITAL AND SURPLUS, SHAREHOLDERS' DIVIDEND RESTRICTIONS, AND QUASI-REORGANIZATIONS

The Company has 2,000 shares authorized and 2,000 shares issued and outstanding of \$50 par value common stock. The Company has no preferred stock outstanding. All issued and outstanding shares of common stock are held by the Company's parent, UHC.

Payment of dividends may be restricted by the Department and Arkansas law, which generally require that dividends be paid out of accumulated surplus.

The Company paid an ordinary cash dividend to UHC of \$1,200,000 on June, 20, 2011, which was approved by the Department and was recorded as a reduction to unassigned surplus in the accompanying statutory basis statements of admitted assets, liabilities, and capital and surplus.

There are no restrictions placed on the Company's unassigned surplus. The Company does not hold any stock, including stock of affiliated companies for special purposes, such as conversion of preferred stock, employee stock options or stock purchase warrants.

The Company does not have any special surplus funds.

The portion of unassigned funds represented or (reduced) by each item below is as follows (in thousands):

	2	011	2010	
Net deferred income taxes Nonadmitted assets	\$	64 (58)	\$	50 (36)
Total	\$	6	\$	14

The Company has never been a party to a quasi-reorganization and does not have any outstanding surplus notes.

#### 14. CONTINGENCIES

Because of the nature of the business, the Company is routinely made party to a variety of legal actions related to the design and management of its service offerings. The Company records liabilities for estimates of probable costs resulting from these matters where appropriate. These matters include, but are not limited to, claims relating to health care benefits coverage, medical malpractice actions, contract disputes, and claims related to certain other business practices. Although the outcomes of any such legal actions cannot be predicted, in the opinion of management, the resolution of any currently pending or threatened actions will not have a material adverse effect on the accompanying statutory basis statements of admitted assets, liabilities, and capital and surplus or statutory basis statements of operations of the Company.

The Company's business is regulated at the federal, state and local levels. The laws and rules governing the Company's business and interpretations of those laws and rules are subject to frequent change. Broad latitude is given to the agencies administering those regulations. Further, the Company must obtain and maintain regulatory approvals to market and sell many of its products.

The Company has been and is currently involved in various governmental investigations, audits and reviews. These include routine, regular and special investigations, audits and reviews by CMS, state insurance and health and welfare departments, state attorneys general, the Office of Inspector General (OIG), the Office of Personnel Management, the Office of Civil Rights, U.S. Congressional committees, the U.S. Department of Justice, U.S. Attorneys, the SEC, the IRS, the U.S. Department of Labor, the Federal Deposit Insurance Corporation and other governmental authorities. Examples of audits include the risk adjustment data validation (RADV) audits discussed below and a review by the U.S. Department of Labor of the Company's administration of applicable customer employee benefit plans with respect to ERISA compliance.

Government actions can result in assessment of damages, civil or criminal fines or penalties, or other sanctions, including loss of licensure or exclusion from participation in government programs and could have a material adverse impact on the accompanying statutory basis statements of admitted assets, liabilities, and capital and surplus or statutory basis statements of operations of the Company.

Risk Adjustment Data Validation Audit. CMS adjusts capitation payments to Medicare Advantage and Medicare Part D Program plans according to the predicted health status of each beneficiary, as supported by data provided by health care providers. The Company collects claim and encounter data from providers, who the Company generally relies on to appropriately code their claim submissions and document their medical records. CMS then determines the risk score and payment amount for each enrolled member based on the health care data submitted and member demographic information.

In 2008, CMS announced that it would perform RADV audits of selected Medicare Advantage health plans each year to validate the coding practices of and supporting documentation maintained by health care providers. These audits involve a review of medical records maintained by providers and may result in retrospective adjustments to payments made to health plans. Certain UnitedHealth group health plans have been selected for audit. These audits are focused on medical records supporting risk adjustment data for 2006 that were used to determine 2007 payment amounts. Although these audits are ongoing, the Company does not believe they will have a material impact on the accompanying statutory basis statements of admitted assets, liabilities, and capital and surplus or statutory basis statements of operations of the Company.

In December 2010, CMS published for public comment a new proposed RADV audit and payment adjustment methodology. The proposed methodology contains provisions allowing retroactive contract level payment adjustments for the year audited using an extrapolation of the error rate identified in audit samples. UnitedHealth Group has submitted comments to CMS regarding concerns UnitedHealth Group has with CMS's proposed methodology. The concerns include, among others, the fact that the proposed methodology does not take into account the error rate in the original Medicare fee-for-service data that was used to develop the risk adjustment system. Additionally, payments received from CMS, as well as benefits offered and premiums charged to members, are based on actuarially certified bids that did not include any assumption of retroactive audit payment adjustments. UnitedHealth Group believes that applying retroactive audit and payment adjustments after CMS acceptance of bids undermines the actuarial soundness of the bids. On February 24, 2012 CMS issued their final audit approach methodology. Management is currently evaluating the impact the revised methodology could have on the accompanying statutory basis financial statements. Potential payment adjustments could have a material adverse effect on the accompanying statutory basis statements of admitted assets, liabilities, and capital and surplus or statutory basis statements of operations of the Company.

During the first quarter of 2010, the Patient Protection and Affordable Care Act and a reconciliation measure, the Health Care and Education Reconciliation Act of 2010 (collectively known as Health Reform Legislation), were signed into law. The Health Reform Legislation expands access to coverage

and modifies aspects of the commercial insurance market, as well as the Medicaid and Medicare programs, Comprehensive Health Insurance Pool (CHIP), and other aspects of the health care system. Certain provisions of the Health Reform Legislation have already taken effect, and other provisions become effective at various dates over the next several years. The Department of Health and Human Services (HHS), the Department of Labor (DOL) and the Treasury Department have issued regulations or proposed regulations on a number of aspects of Health Reform Legislation, but final rules and interim guidance on the other key aspects of the legislation remain pending.

Certain aspects of the Health Reform Legislation are also being challenged in federal court, with the proponents of such challenges seeking to limit the scope of or have all or portions of the Health Reform Legislation declared unconstitutional. The United States Supreme Court is scheduled to hear oral arguments on certain aspects of these cases in March 2012, including the constitutionality of the individual mandate. Congress may also withhold the funding necessary to implement the Health Reform Legislation, or may attempt to replace the legislation with amended provisions or repeal it altogether.

The Health Reform Legislation and the related federal and state regulations will impact how the Company does business and could restrict revenue and enrollment growth in certain products and market segments, restrict premium growth rates for certain products and market segments, increase the Company's medical and administrative costs, expose the Company to an increased risk of liability (including increasing our liability in federal and state courts for coverage determinations and contract interpretation) or put the Company at risk for loss of business. In addition, the Company's results of operations, financial condition, and cash flows could be materially adversely affected by such changes. The Health Reform Legislation may create new or expand existing opportunities for business growth, but due to its complexity, the impact of the Health Reform Legislation remains difficult to predict and is not yet fully known.

The Company is not aware of any assessments, potential or accrued, that could have a material financial effect on the operations of the entity or any gain contingencies that should be recorded or disclosed in the financial statements

There are no assets that the Company considers to be impaired at December 31, 2011 and 2010, except as disclosed in Note 5 and Note 20.

### 15. LEASES

According to the management agreement between the Company and UHS (see Note 10), operating leases for the rental of office facilities and equipment are the responsibility of UHS. Fees associated with the management agreement are included in the Company's management fee.

# 16. INFORMATION ABOUT FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK AND FINANCIAL INSTRUMENTS WITH CONCENTRATIONS OF CREDIT RISK

The Company does not hold any financial instruments with off-balance-sheet risk or concentrations of credit risk.

# 17. SALE, TRANSFER, AND SERVICING OF FINANCIAL ASSETS AND EXTINGUISHMENTS OF LIABILITIES

The Company did not participate in any transfer of receivables, financial assets, or wash sales.

# 18. GAIN OR LOSS TO THE REPORTING ENTITY FROM UNINSURED PLANS AND THE UNINSURED PORTION OF PARTIALLY INSURED PLANS

The Medicare Part D program is a partially insured plan. The Company recorded a receivable of approximately \$145,000 and \$39,000 at December 31, 2011 and 2010, respectively, for cost reimbursements under the Medicare Part D program for the catastrophic reinsurance and low-income member cost-sharing subsidies as described in Note 1 *Amounts Receivable Relating to Uninsured Plans and Liability for Amounts Held Under Uninsured Plans*. The Company also recorded a receivable of approximately \$124,000 and a payable of approximately \$174,000 at December 31, 2011 for the Medicare Part D Coverage Gap Discount Program as described in Note 1, *Amounts Receivable Relating to Uninsured Plans and Liability for Amounts Held Under Uninsured Plans*.

# 19. DIRECT PREMIUM WRITTEN/PRODUCED BY MANAGING GENERAL AGENTS/THIRD-PARTY ADMINISTRATORS

The Company did not have any direct premiums written or produced by managing general agents or third-party administrators.

#### 20. FAIR VALUE MEASUREMENT

The NAIC SAP defines fair value, establishes a framework for measuring fair value, and outlines the disclosure requirements related to fair value measurements. The fair value hierarchy is as follows:

Level 1 — Quoted (unadjusted) prices for identical assets in active markets.

Level 2 — Other observable inputs, either directly or indirectly, including:

- Quoted prices for similar assets in active markets
- Quoted prices for identical or similar assets in nonactive markets (few transactions, limited information, noncurrent prices, high variability over time, etc.)
- Inputs other than quoted prices that are observable for the asset (interest rates, yield curves, volatilities, default rates, etc.)
- Inputs that are derived principally from or corroborated by other observable market data

Level 3 — Unobservable inputs that cannot be corroborated by observable market data.

The estimated fair values of bonds and short-term investments are based on quoted market prices, where available. The Company obtains one price for each security primarily from a third-party pricing service (pricing service), which generally uses quoted or other observable inputs for the determination of fair value. The pricing service normally derives the security prices through recently reported trades for identical or similar securities, making adjustments through the reporting date based upon available observable market information. For securities not actively traded, the pricing service may use quoted market prices of comparable instruments or discounted cash flow analyses, incorporating inputs that are currently observable in the markets for similar securities. Inputs that are often used in the valuation methodologies include, but are not limited to, non-binding broker quotes, benchmark yields, credit spreads, default rates and prepayment speeds. As the Company is responsible for the determination of fair value, it performs quarterly analyses on the prices received from the pricing service to determine whether the prices are reasonable estimates of fair value. Specifically, the Company compares the prices received from the pricing service to prices reported by its custodian, its investment consultant and thirdparty investment advisors. Additionally, the Company compares changes in the reported market values and returns to relevant market indices to test the reasonableness of the reported prices. Based on the Company's internal price verification procedures and review of fair value methodology documentation provided by independent pricing services, the Company has not historically adjusted the prices obtained from the pricing service.

In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset or liability.

The Company has does not have any financial assets that are measured and reported at fair value on the statutory basis statements of admitted assets, liabilities, and capital and surplus at December 31, 2011 and 2010.

The Company does not have any financial assets with a fair value hierarchy of level 3.

### 21. OTHER ITEMS

The Company's business is regulated at federal, state and local levels, and the Company must obtain and maintain regulatory approvals to market and sell many of its products. The laws and rules governing the Company's business and interpretations of those laws and rules are subject to frequent change. Broad latitude is given to the agencies administering those regulations. State legislatures and Congress continue to focus on health care issues.

The Company did not encounter any extraordinary items for the years ended December 31, 2011 or 2010.

The Company has no troubled debt restructurings as of December 31, 2011 or 2010.

The Company routinely evaluates the collectability of all receivable amounts included within the statutory basis statements of admitted assets, liabilities, and capital and surplus. Reserves are established for those amounts where collectability is uncertain. Based on the Company's past experience, exposure

related to uncollectible balances and the potential of loss for those balances not currently reserved for is not material to the Company's financial condition.

The Company has not received any business interruption insurance recoveries during 2011 and 2010, and does not have any state transferable tax credits or hybrid securities as of December 31, 2011 and 2010.

The Company elected to use rounding in reporting amounts in the notes to statutory basis financial statements

Sub-Prime Mortgage Related Risk Exposure - The investment policy for the Company limits investments in asset-backed securities, which includes the sub-prime issuers. Further, the policy limits investments in private-issuer mortgage securities to 10% of the portfolio, which also includes sub-prime issuers. The exposure to unrealized losses on sub-prime issuers is due to changes in market prices. There are no realized losses due to not receiving anticipated cash flows. The investments covered are rated NAIC rating of 1 or 2. The Company has no direct exposure through investments in sub-prime mortgage loans. The Company has no underwriting exposure to sub-prime mortgage risk through mortgage guaranty or financial guaranty insurance coverage. The Company has no direct exposure through other investments related to sub-prime residential mortgage-backed securities and commercial mortgage-backed securities during 2011.

### 22. EVENTS SUBSEQUENT

The Company has evaluated subsequent events through February 28, 2012, which is the date these statutory basis financial statements were available for issuance.

Effective January 1, 2011, the Company entered into a revised management agreement with UHS (see Note 10). This agreement has been approved by the Department. UHS will continue to provide management services to the Company under a revised fee structure which is changing from a fee based on a percentage of net premium income and change in unearned premium reserves and reserve for rate credits to a direct charge basis based on UHS' charges for services or use of assets provided to the Company.

There are no other events subsequent to December 31, 2011, that require disclosure.

### 23. REINSURANCE

**Reinsurance Agreements** — In the normal course of business, the Company seeks to reduce potential losses that may arise from catastrophic events that cause unfavorable underwriting results by reinsuring certain levels of such risk with affiliated reinsurers (see Note 10). The Company remains primarily liable as the direct insurer on all risks reinsured.

### Ceded Reinsurance Report —

Section 1 — General Interrogatories

a. Are any nonaffiliated reinsurers owned in excess of 10% or controlled, either directly or indirectly, by the Company or by any representative, officer, trustee, or director of the Company?

Yes () No (X)

b. Have any policies issued by the Company been reinsured with a company chartered in a country other than the United States (excluding U.S. branches of such companies) that is owned in excess of 10% or controlled directly or indirectly by an insured, a beneficiary, a creditor, or any other person not primarily engaged in the insurance business?

Yes () No (X)

Section 2 — Ceded Reinsurance — Part A

1) Does the Company have any reinsurance agreements in effect under which the reinsurer may unilaterally cancel any reinsurance for reasons other than for nonpayment of premium or other similar credit?

Yes () No (X)

2) Does the reporting entity have any reinsurance agreements in effect that the amount of losses paid or accrued through the statement date may result in a payment to the reinsurer of amounts that, in aggregate and allowing for offset of mutual credits from other reinsurance agreements with the same reinsurer, exceed the total direct premium collected under the reinsured policies?

Yes () No 
$$(X)$$

Section 3 — Ceded reinsurance — Part B

1) What is the estimated amount of the aggregate reduction in surplus (for agreements other than those under which the reinsurer may unilaterally cancel for reasons other than for nonpayment of premium or other similar credits that are reflected in Section 2 above) of termination of all reinsurance agreements, by either party, as of the date of this statement? Where necessary, the Company may consider the current or anticipated experience of the business reinsured in making this estimate.

The Company estimates there should be no aggregate reduction in surplus for termination of all reinsurance agreements as of December 31, 2011.

2) Have any new agreements been executed or existing agreements amended, since January 1 of the year of this statement, to include policies or contracts that were in force or which had existing reserves established by the Company as of the effective date of the agreement?

Yes () 
$$No(X)$$

**Unsecured Reinsurance Recoverable** — The Company does not have an unsecured aggregate reinsurance recovery receivable with any individual reinsurers, authorized or unauthorized, that exceeds 3% of the Company's policyholder surplus.

**Reinsurance Recoverable in Dispute** — The Company does not have a reinsurance recoverable balance that is being disputed by any individual reinsurer.

**Reinsurance Assumed and Ceded** — The Company does not have a provision in its reinsurance contract to return commissions to the reinsurer in the event that the Company cancels its reinsurance policy.

**Uncollectible Reinsurance** — During 2011 and 2010, there were no uncollectible reinsurance recoverables.

**Commutation of Reinsurance** — There was no commutation of reinsurance in 2011 or 2010.

**Retroactive Reinsurance** — The Company did not have a retroactive reinsurance agreement in 2011 or 2010.

# 24. RETROSPECTIVELY RATED CONTRACTS AND CONTRACTS SUBJECT TO REDETERMINATION

The Company has Medicare Part D program business which is subject to a retrospective rating feature related to Part D Premiums. The Company has estimated accrued retrospective premiums related to certain Part D premiums based on guidelines determined by CMS. The formula is tiered and based on the bid medical loss ratio. The amount of Part D earned premiums subject to retrospective rating was approximately \$1,993,000 and \$1,066,000 representing 5.5% and 4.6% of total net premium income for 2011 and 2010, respectively.

Estimated accrued retrospective premiums due to (from) the Company are recorded in uncollected premiums or aggregate health policy reserves in the statutory basis statements of admitted assets, liabilities, and capital and surplus and as an adjustment to change in unearned premium reserves and reserves for rate credits or net premium income in the statutory basis statements of operations.

The Company does not have any other retrospectively rated contracts subject to redetermination as of December 31, 2011 or 2010.

Pursuant to the Health Reform Legislation (see Note 14), the Company is required to maintain specific minimum loss ratios. These minimum loss ratios apply to comprehensive major medical coverage and vary depending on group size. The following table discloses the minimum medical loss ratio rebates required pursuant to the Health Reform Legislation for the year ended December 31, 2011 (in thousands):

	1 Individual	2 Small Group Employer	3 Large Group Employer	4 Other Categories with rebates	5 Total
Prior Reporting Year					
(1) Medical Loss Ratio Rebates Incurred	0	0	0	0	0
(2) Medical Loss Ratio Rebates Paid	0	0	0	0	0
(3) Medical Loss Rebates Unpaid	0	0	0	0	0
(4) Plus reinsurance assumed amounts	XXX	XXX	XXX	XXX	0
(5) Less reinsurance ceded amounts	XXX	XXX	XXX	XXX	0
(6) Rebates unpaid net of reinsurance	XXX	XXX	XXX	XXX	0
Current Reporting Year-to-Date					
(7) Medical Loss Ratio Rebates Incurred	0	0	35	0	35
(8) Medical Loss Ratio Rebates Paid	0	0	0	0	0
(9) Medical Loss Rebates Unpaid	0	0	35	0	35
(10) Plus reinsurance assumed amounts	XXX	XXX	XXX	XXX	0
(11) Less reinsurance ceded amounts	XXX	XXX	XXX	XXX	0
(12) Rebates Unpaid net of reinsurance	XXX	XXX	XXX	XXX	0

#### 25. CHANGE IN INCURRED CLAIMS AND CLAIMS ADJUSTMENT EXPENSES

Changes in estimates related to the prior year incurred claims are included in total hospital and medical expenses in the current year in the accompanying statutory basis statements of operations. The following tables disclose paid claims, incurred claims, and the balance in the claims unpaid, accrued medical incentive pool and bonus amounts, aggregate health claim reserves and health care receivables for 2011 and 2010 (in thousands):

	2011						
		rrent Year ncurred Claims	I	ior Years ncurred Claims		Total	
Beginning of year claim reserve	\$	-	\$	(3,402)	\$	(3,402)	
Paid claims, net of health care receivables		25,673		1,969		27,642	
End of year claim reserve		5,312		73	_	5,385	
Incurred claims excluding the change in health care receivables		30,985		(1,360)		29,625	
Beginning of year health care receivables End of year health care receivables		(359)		175 (24)		175 (383)	
Total incurred claims	\$	30,626	\$	(1,209)	_	29,417	

	2010					
	Current Year Incurred Claims		Prior Years Incurred Claims		Total	
Beginning of year claim reserve Paid claims, net of health care receivables End of year claim reserve	\$	15,388 3,352	\$	(2,102) 1,455 50	\$	(2,102) 16,843 3,402
Incurred claims excluding the change in health care receivables		18,740		(597)		18,143
Beginning of year health care receivables End of year health care receivables		(174)		87 (1)		87 (175)
Total incurred claims	\$	18,566	\$	(511)		18,055

The liability for claims unpaid, accrued medical incentive pool and bonus amounts, aggregate health claim reserves and health care receivables as of December 31, 2010 were approximately \$3,227,000. As of December 31, 2011, approximately \$1,969,000 has been paid for incurred claims attributable to insured events of prior years. Reserves remaining for prior years are now approximately \$49,000 as a result of re-estimation of unpaid claims. Therefore, there has been approximately \$1,209,000 favorable

prior-year development since December 31, 2010 to December 31, 2011. The primary drivers consist of favorable development as a result of ongoing analysis of loss development trends related to the release and reestablishment of approximately \$467,000 in known environmental claims and approximately \$679,000 in retroactivity for inpatient, outpatient, physician, and pharmacy claims. At December 31, 2010, the Company recorded approximately \$511,000 of favorable development related to insured events of prior years primarily as a result of ongoing analysis of loss development trends, known environmental factor reserves, retroactivity for inpatient, outpatient, physician, and pharmacy claims, and provider settlement reserves. Original estimates are increased or decreased, as additional information becomes known regarding individual claims. Included in this favorable development is the impact related to retrospectively rated policies. As a result of the prior-year effects, on a regular basis, the Company adjusts revenue and the corresponding liability and/or receivable related to retrospectively rated policies and the impact of the change is included as a component of change in unearned premium reserves and reserve for rate credits in the statutory basis statements of operations.

The Company incurred claims adjustment expenses of approximately \$1,050,000 and \$645,000 in 2011 and 2010, respectively. These costs are included in the management service fees paid by the Company to UHS as a part of its management agreement (see Note 10) The following tables disclose paid CAE, incurred CAE, and the balance in the unpaid claim adjustment expenses reserve for 2011 and 2010 (in thousands):

	2011	2010
Total claims adjustment expenses incurred Less current year unpaid claims adjustment expenses Add prior year unpaid claims adjustment expenses	\$1,050 (101) <u>60</u>	\$ 645 (60) 32
Total claims adjustment expenses paid	\$1,009	<u>\$ 617</u>

#### 26. INTERCOMPANY POOLING ARRANGEMENTS

The Company did not have any intercompany pooling arrangements in 2011 or 2010.

#### 27. STRUCTURED SETTLEMENTS

The Company did not have structured settlements in 2011 or 2010.

#### 28. HEALTH CARE AND OTHER RECEIVABLES

Pharmaceutical rebates receivable are recorded when reasonably estimated or billed by the affiliated pharmaceutical benefit manager in accordance with pharmaceutical rebate contract provisions. Information used to support rebates billed to the manufacturer is based on utilization information gathered by the pharmaceutical benefit manager and adjusted for significant changes in pharmaceutical contract provisions. The Company has excluded receivables that do not meet the admissibility criteria from the statutory basis statements of admitted assets, liabilities, and capital and surplus.

The collection history of pharmacy rebates is summarized as (in thousands):

Quarter	Pha	imated rmacy ebates	Pharmacy Rebates as Invoiced/ Confirmed	Rebates Collected Within 90 Days of Invoicing/ Confirmation	Rebates Collected Within 91 to 180 Days of Invoicing/ Confirmation	Rebates Collected More than 181 Days of Invoicing/ Confirmation
December 31, 2011	\$	247	\$	\$	\$	\$
September 30, 2011		249	246	149		
June 30, 2011		236	226	198	26	
March 31, 2011		219	213	188	22	1
December 31, 2010		115	125	95	26	1
September 30, 2010		108	113	84	31	1
June 30, 2010		105	105	71	32	1
March 31, 2010		76	91	64	25	2
December 31, 2009		55	66	47	6	13
September 30, 2009		51	57	47	5	4
June 30, 2009		49	57	42	12	2
March 31, 2009		45	45	31	10	3

Of the amount reported as health care receivables, approximately \$328,000 and \$144,000 relates to pharmaceutical rebate receivables as of December 31, 2011 and 2010, respectively.

### 29. PARTICIPATING POLICIES

The Company did not have any participating contracts in 2011 or 2010.

#### 30. PREMIUM DEFICIENCY RESERVES

The Company has not recorded any premium deficiency reserves as of December 31, 2011 or 2010.

### 31. ANTICIPATED SALVAGE AND SUBROGATION

Due to the type of business being written, the Company has no salvage. As of December 31, 2011 and 2010, the Company had no specific accruals established for outstanding subrogation, as it is considered a component of the actuarial calculations used to develop the estimates of claims unpaid and aggregate health claim reserves.

## **GENERAL INTERROGATORIES**

15.1 15.2	<ul> <li>1.1 Is the reporting entity the beneficiary of a Letter of Credit that is unrelated to reinsurance with a NAIC rating of 3 or below?</li> <li>1.2 If the response to 15.1 is yes, indicate the American Bankers Association (ABA) Routing Number and the name of the issuing or confirming bank of the Letter of Credit and describe the circumstances in which the Letter of Credit is triggered.</li> </ul>			Yes	[ ]	No [ X	]
	1 American Bankers Association (ABA) Routing	2	3		4		
	Number	Issuing or Confirming Bank Name	Circumstances That Can Trigger the Letter of Credit		Amou	nt	
16.	le the purchase or s		O OF DIRECTORS pon either by the board of directors or a subordinate committee				
10.	thereof?			Yes	[ X ]	No [	]
17.			edings of its board of directors and all subordinate committees	Yes	[ X ]	No [	1
18.	Has the reporting er	ntity an established procedure for disclosure to its boa	ard of directors or trustees of any material interest or affiliation on the nat is in conflict with the official duties of such person?	9	[ X ]		]
		F	FINANCIAL				
19.	Has this statement	been prepared using a basis of accounting other than	Statutory Accounting Principles (e.g., Generally Accepted	Yes	r 1	No [ X	1
20.1			clusive of policy loans): 20.11 To directors or other officers				
			20.12 To stockholders not officers				
00.0	Total constant		20.13 Trustees, supreme or grand (Fraternal Only)	\$			0
20.2	policy loans):	ns outstanding at the end of year (inclusive of Separa	te Accounts, exclusive of 20.21 To directors or other officers	\$			
	policy loane).		20.22 To stockholders not officers				
			20.23 Trustees, supreme or grand (Fraternal Only)	\$			0
21.1	obligation being re	ported in the statement?	ation to transfer to another party without the liability for such	Yes	[ ]	No [ X	]
21.2	If yes, state the amo	ount thereof at December 31 of the current year:	21.21 Rented from others				
			21.22 Borrowed from others				
			21.23 Leased from others				
22.1			21.24 Otherhe Annual Statement Instructions other than guaranty fund or				
22.2	If answer is yes:		22.21 Amount paid as losses or risk adjustme	ent \$			C
			22.22 Amount paid as expenses				
00.4	D	and the second s	22.23 Other amounts paid				
23.1 23.2			es or affiliates on Page 2 of this statement?				
		IN	IVESTMENT				
24.1			current year, over which the reporting entity has exclusive control, in ecurities lending programs addressed in 24.3)	Yes	[ X ]	No [	]
24.2		omplete information relating thereto					
24.3	For security lending whether collateral	programs, provide a description of the program inclu is carried on or off-balance sheet. (an alternative is to	ding value for collateral and amount of loaned securities, and preference Note 17 where this information is also provided)				
24.4	Does the Company Instructions?	's security lending program meet the requirements for	r a conforming program as outlined in the Risk-Based Capital Yes	[ ] No	) [	] N/A [	Х
24.5	If answer to 24.4 is	yes, report amount of collateral for conforming progra	ms	\$			
24.6	If answer to 24.4 is	no, report amount of collateral for other programs		\$			
24.7			) and 105% (foreign securities) from the counterparty at the	[ ] No	) [	] N/A [	X
24.8	Does the reporting	entity non-admit when the collateral received from the	e counterparty falls below 100%?	[ ] No	) [	] N/A [	Χ .
24.9	Does the reporting conduct securities		t utilize the Master Securities lending Agreement (MSLA) to	[ ] No	1 c	1 N/A 1	Y

# **GENERAL INTERROGATORIES**

25.1	25.1 Were any of the stocks, bonds or other assets of the reporting entity owned at December 31 of the current year not exclusively under the control of the reporting entity, or has the reporting entity sold or transferred any assets subject to a put option contract that is currently in force? (Exclude securities subject to Interrogatory 21.1 and 24.3).					Yes [ X ] No [ ]	
25.2	If yes, state the amount thereo	f at December 31 of th	ne current year:	25 21	Subject to repurchase an	reements	\$
	, ,					hase agreements	
					•	ise agreements	
						repurchase agreements	
						ements	
						rities restricted as to sale	
						ther regulatory body	
25.3	For category (25.27) provide the following:					3	
	Natu	re of Restriction			Description		Amount
26.1 26.2 27.1 27.2 28.	6.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state?					] No [ ] N/A [ X  Yes [ ] No [ X ] \$  Yes [ X ] No [ ]	
28.02	For all agreements that do not and a complete explanation:	comply with the requir		C Financial Conditio	on Examiners Handbook,	3	
	Name(s	3)	-	Location(s)		Complete Explanat	ion(s)
	Have there been any changes If yes, give full and complete in	=	reto:	an(s) identified in 28			Yes [ ] No [ X ]
	1 Old Custodian		2 New Cus	stodian	3 Date of Change	4 Reason	1
28.05	Identify all investment advisors handle securities and have a					the investment accounts,	
	1		2			3	
	Central Registration						
	Depository Number(s)		Name			Address	
	N/A	Internally Managed			I/A		

## **GENERAL INTERROGATORIES**

1	2			3
CUSIP#	Name of Mutual Fund			Book/Adjusted Carrying Value
29.2999 - Total	Traine of Matauri and			Carrying Value
or each mutual fund listed in the table above, complete the followi	ng schedule:			
1	2		3	. 4
	Name of Significan	nt Holding of the	Amount of Mutu Fund's Book/Adjus Carrying Value Attributable to the	sted
Name of Mutual Fund (from above table)	Mutual F		Holding	Valuatio
	h			
	Statement (Admitted) Value	Fair Value	Fair Value over Statement (+)	
30.1 Bonds		2,070,406	5,654	
30.2 Preferred stocks	2,064,752	2,070,406	0 5,654	
rescribe the sources or methods utilized in determining the fair val or those securities that had prices in the NAIC SVO ISIS database	e, those prices were used; for	s vendor. Hub utilizes	various pricing	
the NAIC SVO ISIS database, pricing was obtained from HUB whi sources.				
71 0				Yes [ ] N
sources.	custodian for any of the secur	rities in Schedule D?	y or electronic copy) for	

32.2 If no, list exceptions:

## **GENERAL INTERROGATORIES**

### OTHER

55.1	Amount of payments to trade associations, service organizations and statistical of fating bureaus, if any:		Ψ	0
33.2	List the name of the organization and the amount paid if any such payment represented 25% or more of the tot service organizations and statistical or rating bureaus during the period covered by this statement.	al payments to trade a	ssociations,	
	1 Name	2 Amount Paid		
34.1	Amount of payments for legal expenses, if any?		\$	3,313
34.2	List the name of the firm and the amount paid if any such payment represented 25% or more of the total paymed during the period covered by this statement.	ents for legal expenses		
	1	2		
	Name	Amount Paid		
	Baker, Donelson, Bearman, Caldwell, & Berkowitz	1,397		
	Balch & Bingham	1,501		
35.1	Amount of payments for expenditures in connection with matters before legislative bodies, officers or department	ents of government, if a	iny?\$	0
35.2	List the name of the firm and the amount paid if any such payment represented 25% or more of the total payment connection with matters before legislative bodies, officers or departments of government during the period co		t.	
	1	2		
	Name	Amount Paid		

# **GENERAL INTERROGATORIES**

#### PART 2 - HEALTH INTERROGATORIES

1.1 1.2	1 0 , , , , , , , , , , , , , , , , , ,				
1.3		portion of Item (1.2) is not reported on the Medicare Supplement Insurance			
1.0		Reason for excluding	C Experience Exhibit:	.Ψ	
		. touson for oncluding			
1.4	Indic	ate amount of earned premium attributable to Canadian and/or Other Alien	not included in Item (1.2) above	\$	
1.5	Indic	ate total incurred claims on all Medicare Supplement Insurance.		.\$	0
1.6		dual policies:	Most current three years:		
			1.61 Total premium earned	.\$	0
			1.62 Total incurred claims		
			1.63 Number of covered lives		
			All years prior to most current three years:		
			1.64 Total premium earned		0
			1.65 Total incurred claims		
			1.66 Number of covered lives		
			1.00 Number of covered lives		
1.7	Grou	p policies:	Most current three years:		
1.7	Orou	p policies.	1.71 Total premium earned	œ.	٥
			1.72 Total incurred claims	.Ф	٥
			1.73 Number of covered lives		
			All years prior to most current three years:		•
			1.74 Total premium earned		
			1.75 Total incurred claims	.\$	0
			1.76 Number of covered lives		0
2.	Heal	h Test:			
			1 2		
	2.4	Premium Numerator	26 512 242 22 107 207		
	2.1	Premium Denominator	26 512 242		
	2.2				
	2.3	Premium Ratio (2.1/2.2)			
	2.4	Reserve Numerator			
	2.5	Reserve Denominator			
	2.6	Reserve Ratio (2.4/2.5)	1.0001.000		
3.2		, give particulars:	signa' and dontista' ages offered to subscribers and		
4.1		copies of all agreements stating the period and nature of hospitals', physic endents been filed with the appropriate regulatory agency?		Yes [ X ]	No [ ]
4.2	If not	previously filed, furnish herewith a copy(ies) of such agreement(s). Do the	se agreements include additional benefits offered?	Yes [ ]	No [ X ]
5.1	Does	the reporting entity have stop-loss reinsurance?		Yes [ ]	No [ X ]
5.2		explain: has an insolvency only reinsurance agreement.			
5.3	Mavi	num retained risk (see instructions)	5.31 Comprehensive Medical	\$	٨
5.5	IVICIAL	Train retained floit (500 illott dott0115)	5.32 Medical Only		
			5.33 Medicare Supplement	Ψ <b>¢</b>	 n
			5.34 Dental & Vision	Ψ Φ	ں <u></u> 0 ۸
			5.35 Other Limited Benefit Plan	V	٥
			5.36 Other		
6.	hold agre	ribe arrangement which the reporting entity may have to protect subscriber harmless provisions, conversion privileges with other carriers, agreements ements: harmless clauses in provider agreements and continuation of coverage en	rs and their dependents against the risk of insolvency including s with providers to continue rendering services, and any other		
7.1	Does	the reporting entity set up its claim liability for provider services on a service	ce date basis?	Yes [ X ]	No [ ]
7.2	If no,	give details			
8.	Provi	de the following information regarding participating providers:	8.1 Number of providers at start of reporting year . 8.2 Number of providers at end of reporting year		
			o.2 mamber of providers at end of reporting year		
9.1	Does	the reporting entity have business subject to premium rate guarantees?		Yes [ ]	No [ X ]
9.2	If yes	, direct premium earned:	9.21 Business with rate guarantees between 15-36 months. 9.22 Business with rate guarantees over 36 months		

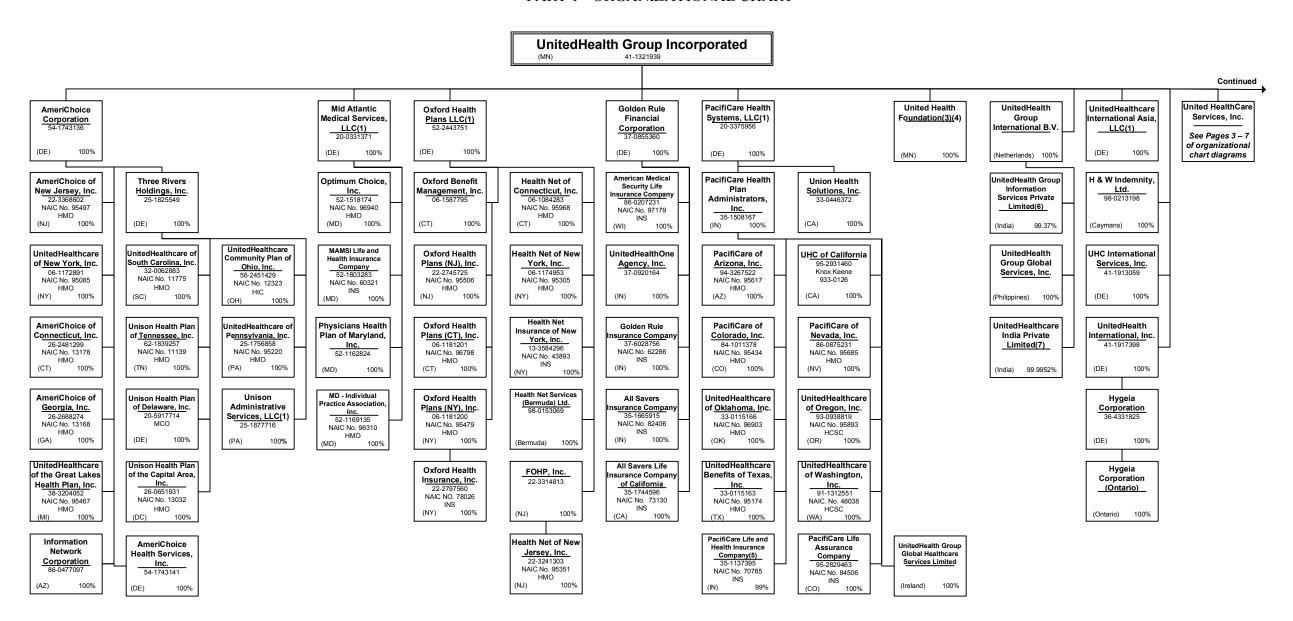
## **GENERAL INTERROGATORIES**

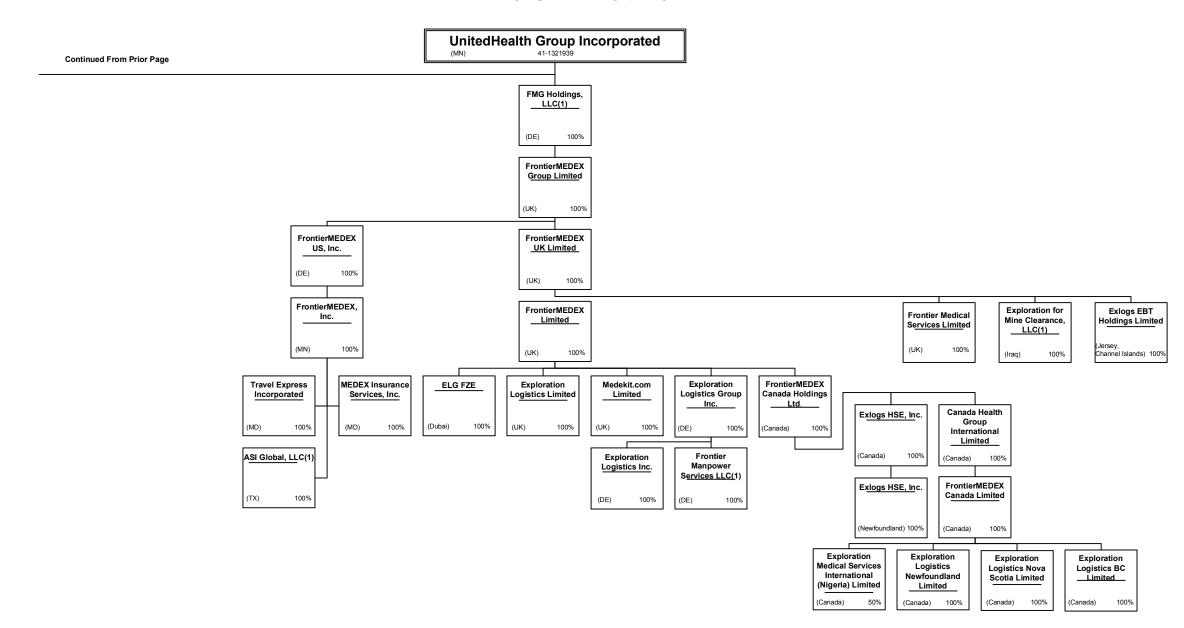
10.1	Does the reporting entity have Incentive Pool, Withhold or Bonus Arrangements in	its provider contracts?	Yes [ X ]	No [ ]
10.2	If yes:	10.21 Maximum amount payable bonuses	\$	10,295
		10.22 Amount actually paid for year bonuses	\$	14,817
		10.23 Maximum amount payable withholds	\$	
		10.24 Amount actually paid for year withholds	\$	
11.1	Is the reporting entitiy organized as:			
		11.12 A Medical Group/Staff Model,	Yes [ ]	No [ X ]
		11.13 An Individual Practice Association (IPA), or, .	Yes [ ]	No [ X ]
		11.14 A Mixed Model (combination of above)?	Yes [ X ]	No [ ]
11.2	Is the reporting entity subject to Minimum Net Worth Requirements?		Yes [ X ]	No [ ]
11.3	If yes, show the name of the state requiring such net worth.			Arkansas
11.4	If yes, show the amount required.		\$	5,144,190
11.5	Is this amount included as part of a contingency reserve in stockholder's equity?		Yes [ ]	No [ X ]
11.6	If the amount is calculated, show the calculation			
	NAIC RBC Model 300% of authorized control level			

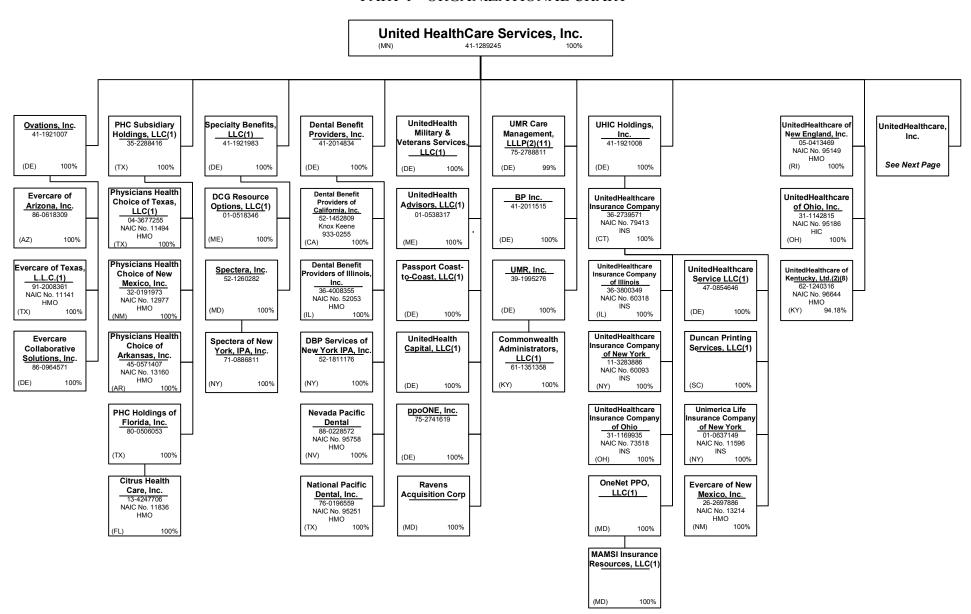
12. List service areas in which reporting entity is licensed to operate:

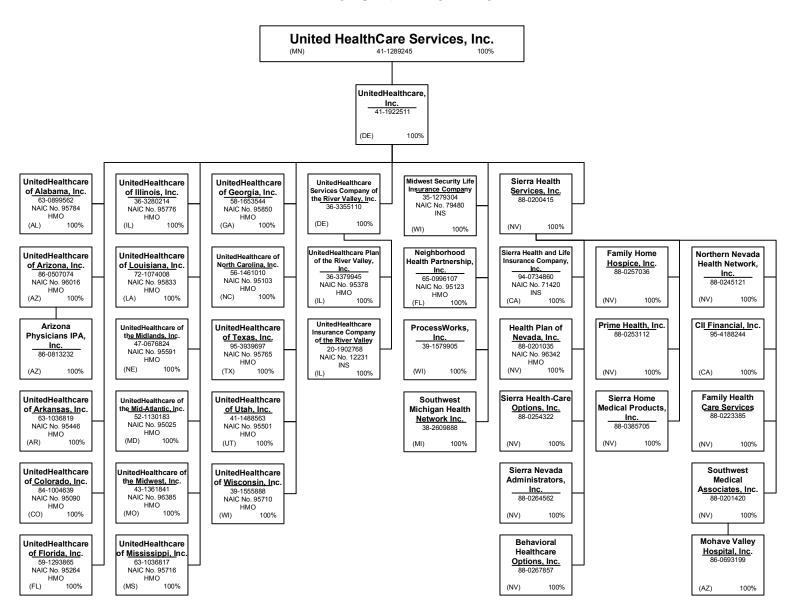
1
Name of Service Area
Arkansas
Ashley
Benton
Bradley
Carroll
Chicot
Clay
Cleburne
Cleveland
Columbia
Conway
Craighead
Crawford
Crittenden
Cross
Dallas
Desha
Drew
Faulkner
Franklin
Fulton
Garland
Grant
Hempstead
Howard
Hot Springs
· ·
Izard
Jackson
Jefferson
Johnson
Lawrence
Little Diver
Little River
Logan
Lonoke
Madison
Miller
Montgomery
Ouachita
Perry
Pike
Polk
Poinsett
Pope
Prairie
Pulaski
Saline
Scott
Searcy
Sebastian
Sevier
Sharp
Van Buren
Washington
White
Woodruff
Yell

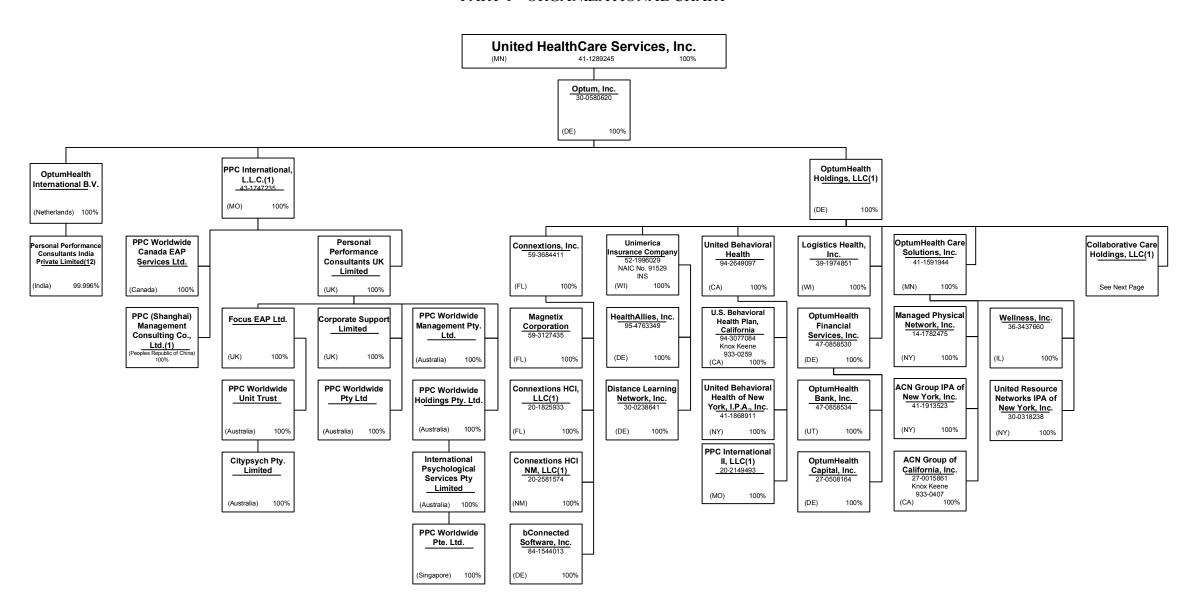
13.1	Do you act as a custodian for health savings accounts?	Yes [	] No [ X ]	l
13.2	If yes, please provide the amount of custodial funds held as of the reporting date.	.\$		
13.3	Do you act as an administrator for health savings accounts?	Yes [	] No [ X ]	J
13.4	If yes, please provide the balance of funds administered as of the reporting date.	\$		

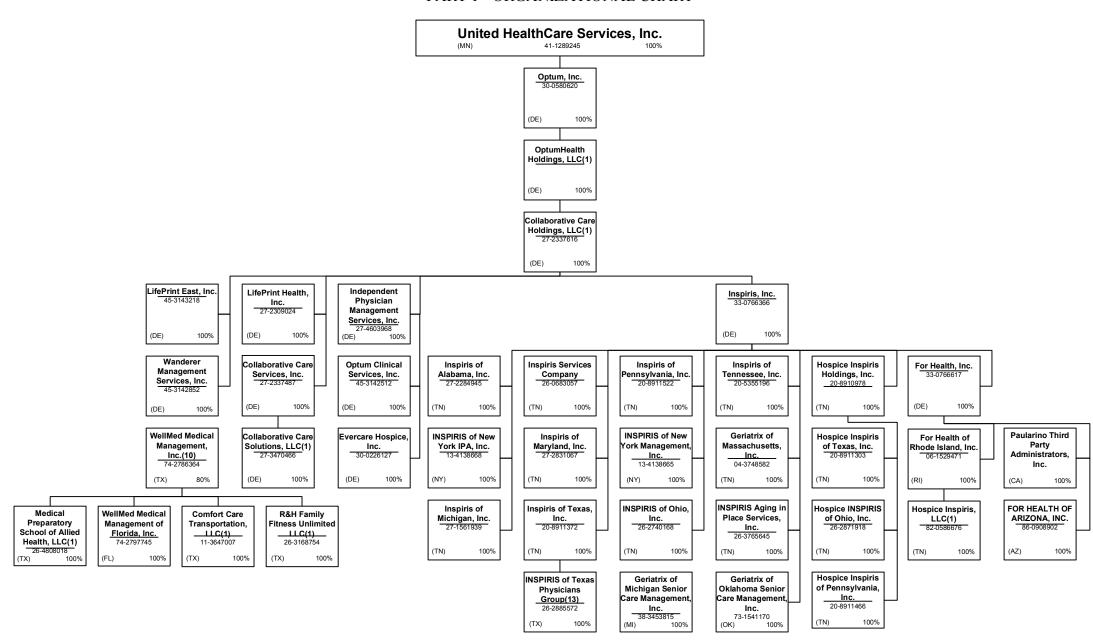


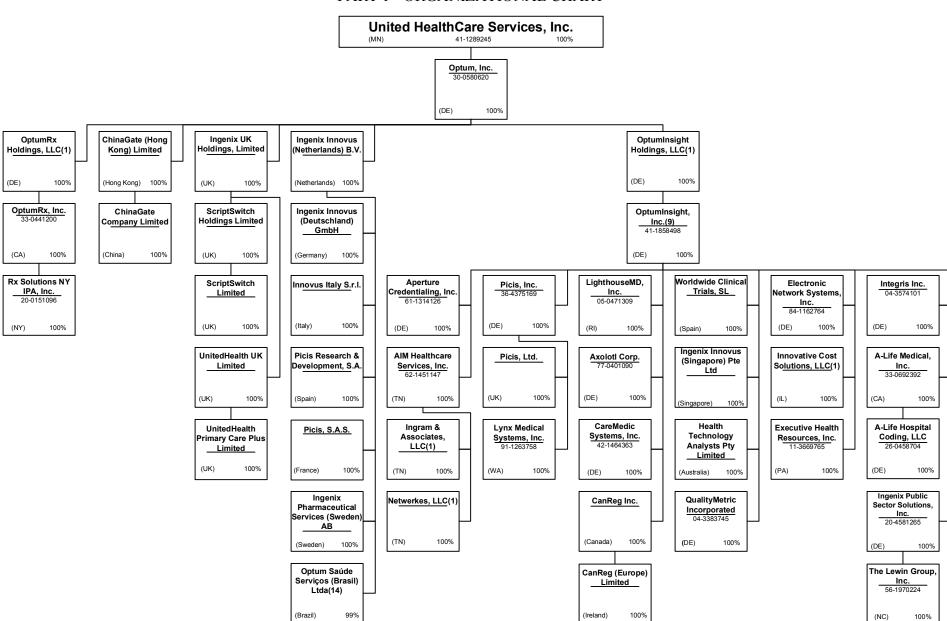












#### PART 1 - ORGANIZATIONAL CHART

#### **Notes**

All legal entities on the Organization Chart are Corporations unless otherwise indicated.

- (1) Entity is a Limited Liability Company
- (2) Entity is a Partnership
- (3) Entity is a Non-Profit Corporation
- (4) Control of the Foundation is based on sole membership, not the ownership of voting securities
- (5) PacifiCare Life and Health Insurance Company is 99% owned by PacifiCare Health Plan Administrators, Inc. and 1% owned by PacifiCare Health Systems. LLC
- (6) UnitedHealth Group Information Services Private Limited is 99.37% owned by UnitedHealth Group International B.V.. The remaining 0.63% is owned by UnitedHealth International, Inc.
- (7) United Healthcare India Private Limited is 99.9952% owned by UnitedHealth Group International B.V. and 0.0048% owned by UnitedHealth International. Inc.
- (8) General partnership interests are held by United HealthCare Services, Inc. (89.77%) and by UnitedHealthcare, Inc. (10.23%). United HealthCare Services, Inc. also holds 100% of the limited partnership interests. When combining general and limited partner interests, United HealthCare Services, Inc. owns 94.18% and UnitedHealthcare, Inc. owns 5.83%.
- (9) Established a branch, Ingenix, Inc. Abu Dhabi, located in Abut Dhabi, UAE.
- (10) WellMed Medical Management, Inc. is 80% owned by Collaborative Care Holdings, LLC and 20% owned by WMG Healthcare Partners, L.P.
- (11) Limited partnership interest is held by United HealthCare Services, Inc. (99%). General partnership interest is held by UMR, Inc. (1%)
- (12) Personal Performance Consultants India Private Limited is 99.996% owned by OptumHealth International B.V. and 0.004 % owned by United Behavioral Health.
- (13) INSPIRIS of Texas Physicians Group is a Texas non-profit (taxable) whose sole member is Inspiris of Texas, Inc.
- (14) Optum Saúde Serviços (Brasil) Ltda. Is 99% owned by Ingenix Innovus (Netherlands) B.V. The remaining 1% is owned by OptumInsight, Inc.

## **OVERFLOW PAGE FOR WRITE-INS**

Additional Write-ins for Underwriting and Investment Exhibit Part 3 Line 25

Addition	Additional Write-ins for Orderwhiting and investment Exhibit Part 3 Line 25						
		Claim Adjustment Expenses		3	4	5	
		1	2				
		Cost	Other Claim	General			
		Containment	Adjustment	Administrative	Investment		
		Expenses	Expenses	Expenses	Expenses	Total	
2504.	25.04 Miscellaneous Losses	292	213	31,496	0	32,001	
2505.	25.05 Professional Fees\Consulting	1,510	1 , 108	5,609	0	8,227	
2597.	Summary of remaining write-ins for Line 25 from		·				
	overflow page	1,802	1,321	37,105	0	40,228	

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